DIXIE CENTER at St. George

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY

FINANCIAL STATEMENTS

Six Months Ended December 31, 2005

With Report Of

Certified Public Accountants

KEMP BURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY

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FINANCIAL SECTION

KEMP BURDICK
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CPA'S & ADVISORS

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Independent Auditors' Report

Executive Director and
Members of the Control Board
Washington County/St. George City Interlocal Agency
St. George, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate remaining fund information of Washington County/St. George City Interlocal Agency (the Agency), as of and for the six months ended December 31, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency as of December 31, 2005, and the results of operations thereof and the respective budgetary comparison for the general fund for the six months 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 our report dated, June 7, 2006, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
June 7, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Washington County/St. George City Interlocal Agency (the Agency) we offer readers of the Agency' s financial statements this narrative overview and analysis of the financial activities for the six months ended December 31, 2005. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by $3 million at the close of the fiscal year.
- Total net assets increased by $1 million.
- Total revenues from all sources were $3 million which includes $1.4 million received from Washington County and St. George City and $1 million received for the premium on the swaption contract for the 1997A bonds.
- The total cost of programs was $1.9 million which includes interest and fiscal charges of $624,911.
- The Agency's long-term debt was decreased by approximately $568,000 during the current fiscal year.
- The Agency's 1997A bond debt service reserve of $1,882,000 was transferred to the construction account with a surety policy issued in lieu of the reserve fund requirement.
- The Agency began construction on the convention center expansion remodel and had expended $2 million towards the total estimated project of $3 million as of December 31, 2005.
- At the end of the current year, unreserved fund balance for the Agency was $2 million or 100% of total expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the Agency as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's most significant funds. (3) Notes to the financial statements.

Reporting the Agency as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the Agency's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting 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 paid.

These two statements report the Agency's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's combined assets exceed liabilities by $3 million as of December 31, 2005 as shown in the following condensed statement of net assets.

Statement of Net Assets

	6/30/2005	12/31/2005
Current and other assets	$ 25,673,705	$ 24,928,783
Capital assets	20,650,098	22,005,574
Total assets	46,323,803	46,934,357
Long-term obligations	21,448,999	20,800,999
Other liabilities	22,923,637	23,102,606
Total liabilities	44,372,636	43,903,605
Net assets:		
Invested in capital assets, net of related debt	(1,516,717)	408,106
Restricted	2,492,767	617,381
Unrestricted	975,117	2,005,265
Total net assets	$ 1,951,167	$ 3,030,752

Governmental Activities

The cost of all Governmental activities this year was $1.9 million. As shown on the statement of Changes in Net Assets presented below; $311,495 of this cost was paid for by those who directly benefited from the programs; $2,609,730 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues were $2,921,225. Investment earnings totaled $100,427.

The Agency's programs include: Convention Center and Museum. Each programs revenues and expenses are presented below.

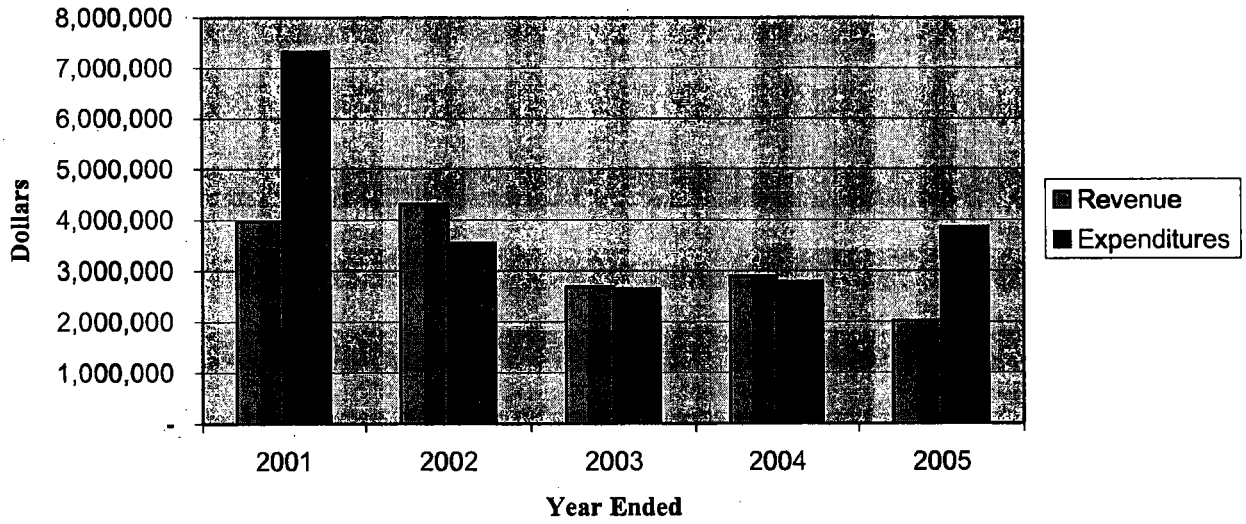
Changes in Net Assets

	6/30/2005	12/31/2005
Revenues:		
Program revenues:		
Charges for services	$ 840,170	$ 311,495
Operating grants and contributions	1,936,153	1,439,647
Capital grants and contributions	60,000	1,170,083
General revenues:		
Land Sale	-	-
Unrestricted investment earnings	109,270	100,427
Total revenues	2,945,593	3,021,652
Expenses:		
Convention Center	1,703,053	1,198,618
Museum	122,463	118,538
Interest & fiscal charges	1,087,805	624,911
Total expenses	2,913,321	1,942,067
Increase in net assets	32,272	1,079,585
Net assets, beginning	1,918,895	1,951,167
Net assets, ending	$ 1,951,167	$ 3,030,752

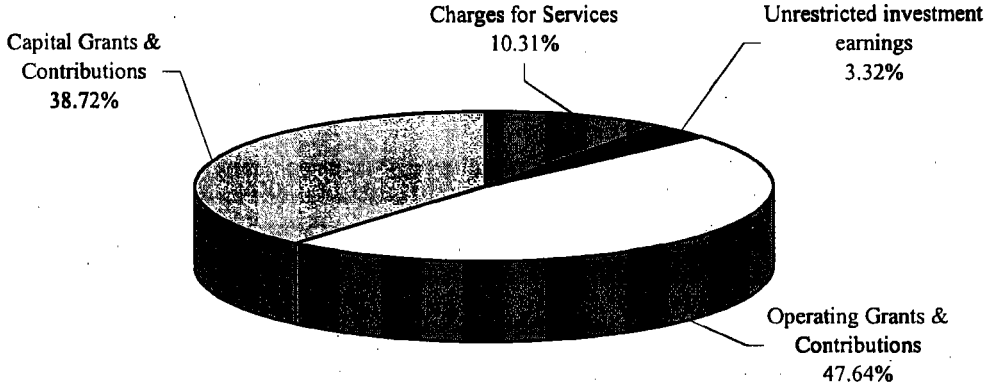
Total resources available during the year to finance governmental operations were $4.97 million consisting of Net assets at July 1, 2005 of $1.9 million, program revenues of $2.9 million and General Revenues of $100 thousand. Total Governmental Activities during the year were $1.9 million; thus Governmental Net Assets were increased by $1 million to $3 million.

The following graphs compare program expenses to program revenues for the last five years and provide a breakdown of revenues by source for all governmental activities:

Revenue & Expenditures



Revenue by Source - Governmental Activities



BUDGETARY HIGHLIGHTS

Budget amendments and supplemental appropriations were not made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget. Actual revenues were $404,452 more than budgeted revenues mainly due to land sales and interest revenues that were not budgeted. Actual expenditures were $1,220,510 less than appropriations since only $2 million of the $3 million capital outlay budget was expended.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Agency are those assets that are used in performance of Agency functions. Capital assets include construction in progress, land, buildings, improvements, equipment, and furniture and fixtures. At the end of the year 2005, the Agency's net capital assets totaled $22 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 9 to the financial statements).

Debt

At the end of the year 2005, the Agency's total governmental type debt outstanding was $21.5 million. During the fiscal year, the Agency's total debt decreased by $568,000. (See note 10 to the financial statements for detailed descriptions).

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The Agency has changed to a calendar budget year beginning January 2006. The Agency will complete the $3 million expansion of the Dixie Center during 2006. Further expansion plans over the next five years should double the size of the Center. This is to keep up with the growth of conventions that are coming into this area and conventions that come here every year that are growing. The plans are to have this done by the time the new airport opens in St. George.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency at 197 E. Tabernacle, St. George UT, 84770.

BASIC FINANCIAL STATEMENTS

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY
Statement of Net Assets
December 31, 2005

	Governmental Activities
Assets	
Cash and cash equivalents	$ 775,833
Receivables (net of allowance)	114,871
Other assets	140,400
Restricted assets:	
Temporarily restricted:	
Cash and cash equivalents	2,448,679
Investment - U.S. Treasury Note	-
Capital assets (net of accumulated depreciation)	
Convention center	10,896,276
Land	4,595,651
Land improvements	56,778
Regional park and improvements	1,205,670
Machinery and equipment	198,654
Seating & risers	22,258
Furniture and fixtures	11,761
Museum	3,015,870
Construction in progress	2,002,656
Net investment in capital lease	21,449,000
Total assets	46,934,357
Liabilities	
Accounts payable and other current liabilities	857,137
Deferred revenue	21,449,000
Interest payable	148,469
Noncurrent liabilities:	
Due within one year	648,000
Due in more than one year	20,800,999
Total liabilities	43,903,605
Net Assets	
Invested in capital assets, net of related debt	408,106
Restricted for:	
Debt Reserve Fund - Series 1997A	-
Repair and Replacement Fund - Series 1997A	237,378
Debt Reserve Fund - Series 2003	362,525
Construction - Series 2003	17,478
Unrestricted	2,005,265
Total Net Assets	$ 3,030,752

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

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY
Statement of Activities
For the Six Months Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:						
Convention Center	$ 1,198,618	$ 311,495	$ 1,439,647	$ 1,170,083	$ 1,722,607	$ 1,722,607
Museum	118,538	-	-	-	(118,538)	(118,538)
Interest & fiscal charges	624,911	-	-	-	(624,911)	(624,911)
Total governmental activities	1,942,067	311,495	1,439,647	1,170,083	979,158	979,158
General Revenues:						
Unrestricted investment earnings					100,427	100,427
Total general revenues & transfers					100,427	100,427
Change in net assets					1,079,585	1,079,585
Net assets - beginning					1,951,167	1,951,167
Net assets - ending					$ 3,030,752	$ 3,030,752

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

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY
Balance Sheet
Governmental Funds
December 31, 2005

	Governmental Fund Types General	Total Governmental Funds
Assets		
Cash	$ 775,833	$ 775,833
Receivables	114,871	114,871
Notes receivable	140,400	140,400
Restricted assets:		
Cash	2,448,679	2,448,679
Investment - U.S. Treasury Note	-	-
Net investment in capital lease	21,449,000	21,449,000
Total Assets	$ 24,928,783	$ 24,928,783
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	796,592	796,592
Accrued liabilities	60,545	60,545
Deferred revenue	21,449,000	21,449,000
Total Liabilities	22,306,137	22,306,137
Fund Equity:		
Fund balances:		
Reserved	617,380	617,380
Unreserved	2,005,266	2,005,266
Total Fund Equity	2,622,646	2,622,646
Total Liabilities and Fund Equity	$ 24,928,783	
Amounts reported for governmental activates in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		22,005,574
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.		(21,597,468)
Net assets of governmental units		$ 3,030,752

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

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Six Months Ended December 31, 2005 and Fiscal Year Ended June 30, 2005

	General Fund	
Revenues	12/31/2005	6/30/2005
Intergovernmental	$ 1,439,647	$ 1,936,153
Charges for services:		
Convention Center	311,495	840,170
Museum	-	-
Interest income	100,427	109,270
Land Sale	167,083	-
Total Revenues	2,018,652	2,885,593
Expenditures		
Current:		
Convention Center		
Salary, wages and benefits	352,831	658,429
Services, supplies and other	281,045	405,395
Capital outlay	2,038,756	77,802
Debt Service:		
Principal	568,000	548,936
Interest and fiscal charges	626,258	1,094,894
Total Expenditures	3,866,890	2,785,456
Excess of Revenues Over (Under) Expenditures	(1,848,238)	100,137
Other financing sources (uses):		
Swaption premium	1,003,000	-
Total Other financing sources (uses)	1,003,000	-
Excess of revenue and other sources over (under) expenditures and other uses	(845,238)	100,137
Fund Balance, beginning of year	3,467,884	3,367,747
Fund Balance, End of Year	$ 2,622,646	$ 3,467,884

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

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities For the Six Months Ended December 31, 2005

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental fund	$ (845,238)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	1,355,476
Donation of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	-
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	568,000
Accrued Interest for Long-term debt does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.	1,347
Change in net assets of governmental activities	$ 1,079,585

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

WASHINGTON COUNTY/ST. GEORGE CITY INTERLOCAL AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Six Months Ended December 31, 2005

	Budgeted Amounts			
Revenues	Original	Final	Actual Amounts	Variance Favorable (Unfavorable)
Intergovernmental	$ 1,356,200	$ 1,356,200	$ 1,439,647	$ 83,447
Charges for services:				
Convention Center	258,000	258,000	311,495	53,495
Museum	-	-	-	-
Interest income	-	-	100,427	100,427
Land Sale	-	-	167,083	167,083
Total Revenues	1,614,200	1,614,200	2,018,652	404,452
Expenditures				
Current:				
Convention Center:				
Salary, wages and benefits	228,400	228,400	352,831	(124,431)
Services, supplies and other	236,600	236,600	281,045	(44,445)
Capital outlay	3,426,200	3,426,200	2,038,756	1,387,444
Debt Service:				
Principal	560,000	560,000	568,000	(8,000)
Interest and fiscal charges	636,200	636,200	626,258	9,942
Total Expenditures	5,087,400	5,087,400	3,866,890	1,220,510
Excess of Revenues Over (Under) Expenditures	(3,473,200)	(3,473,200)	(1,848,238)	1,624,962
Other financing sources (uses):				
Swaption premium	1,003,000	1,003,000	1,003,000	-
Total Other financing sources (uses)	1,003,000	1,003,000	1,003,000	-
Excess of revenue and other sources over (under) expenditures and other uses	(2,470,200)	(2,470,200)	(845,238)	1,624,962
Fund Balance, beginning of year	3,467,884	3,467,884	3,467,884	-
Fund Balance, End of Year	$ 997,684	$ 997,684	$ 2,622,646	$ 1,624,962

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

Note 1. Summary of Significant Accounting Policies

General

The Washington County/St. George City Interlocal Agency (the Agency) or WCIA was formed on January 6, 1997 by Washington County and St. George City pursuant to the Utah Interlocal Co-operation Act, Title 11, Chapter 13, Utah Code Annotated 1953, as amended. The Agency's purpose is to provide for the acquisition, construction, equipping and operation and maintenance of recreational, tourist, cultural and convention facilities. The interlocal agreement terminates after 30 years or such later date upon which all bonds of the Agency and other contractual obligations have been retired, but in no event later than 50 years after January 6, 1997.

The Agency's governing body consists of seven members, three appointed by the Board of Washington County Commissioners, three members appointed by the St. George City Council and one member elected by the six Agency board members. Each Member is entitled to one vote; however, budgeting and financing is not effective until approved by the Board of Commissioners and the City Council.

Reporting Entity

In evaluating how to define the Agency, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Agency is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Agency, which is considered a joint building or finance authority, as per GASB's *Codification,* Section J50.109, whose participating governments are Washington County and St. George City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Note 1. Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The uses of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term debt of the Agency are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, room taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

The **General Fund** is used to account for all financial resources applicable to the operations of the Agency.

Note 1. Summary of Significant Accounting Policies, Continued

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Agency's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables and Payables

All trade accounts receivable are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the Agency's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than $1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Note 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years

Accrued Benefits

Accumulated unpaid vacation and other employee benefit amounts are accrued as an expenditure at year end.

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of nets assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	$21,448,999
Accrued interest payable	148,469
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$21,597,468

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	$ 2,094,464
Depreciation expense	(738,988)
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	$ 1,355,476

Note 3. Stewardship Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are prepared and adopted by the Agency Board on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The budget is then approved by the Washington County Board of Commissioners and the St. George City Council. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, 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, and are adopted in a public hearing, before the end of the fiscal year.

The General Fund budget is prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed budgeted appropriations at the department level. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual report presents any departments which incurred an excess of expenditures over appropriations for the six months ended December 31, 2005, if any.

Encumbrances

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, is not employed by the Agency.

Property Taxes

There are no real property tax levies for the Agency.

Note 4. Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Agency follows the requirements of the Utah Money Management Act (Utah code, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Agency funds in qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Note 4. Deposits and Investments, Continued

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the United States government, agencies of the United States government, any state within the territorial United States of America; or repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements; or certain other investments.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Agency does not have a formal policy for custodial credit risk. As of December 31, 2005, $775,583 of the Agency's cash was held in the central treasury of Washington County. Cash in Washington County's central treasury consists of deposits at various financial institutions, including the State Public Treasurer's Investment Fund. For more information related to central treasury cash refer to Washington County's financial statements.

A reconciliation of unrestricted and restricted cash and investments on the balance sheet follows:

Cash on hand	$ 250
Cash in central treasury	775,583
Cash - PTIF	1,881,475
Restricted Assets:	
Cash - PTIF	567,204
Total	$ 3,224,512

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the Agency and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Agency to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier' by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

Note 4. Deposits and Investments, Continued

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

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 participant's average daily balance. The fair vale of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005 the government had the following investments and maturities:

		Investments Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	$ 2,448,679	$2,448,679	$ -	$ -	$ -
U.S. Treasuries	-	-	-	-	-
Total Fair Value	$ 2,448,679	$2,448,679	$ -	$ -	$ -

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency's policy for reducing it exposure to credit risk is to comply with the State's Money Management Act.

Note 4. Deposits and Investments, Continued

At December 31, 2005 the Agency had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	$ 2,448,679	$ -	$ -	$ -	$2,448,679
U.S. Treasuries	-	-	-	-	-
Total Fair Value	$ 2,448,679	$ -	$ -	$ -	$2,448,679

Note 5. Receivables

Accounts receivable as of December 31, 2005 are as follows:

Accounts Receivable:	
Events	$ 114,871
Allowance for doubtful accounts	-
Total Accounts Receivable, Net	$ 114,871

Note 6. Net Investment in Capital Lease - Washington County

The Agency and Washington County entered into a direct financing lease agreement, dated November 1, 1997, for the lease of the convention facilities constructed by the Agency and the regional park facilities constructed and purchased by the Agency.

The lease term commenced on the date of delivery of the Series 1997A Bonds and ended December 31, 1998; however, the lease term has been continued, and may be continued, solely at the option of the County, beyond the first "renewal term" and for 24 consecutive additional renewal terms thereafter each of one year in duration (except that the final renewal term shall commence January 1, 2022 and end on December 31, 2022).

The County pays base rentals which correspond with the debt service on the $18,290,000 Lease Revenue Bonds (see Note 10); thus, the net investment is restricted.

The Agency's right and interest in the facilities will be transferred to the County and the City (See Note 12 - St. George City Sublease Agreement) upon payment by the County and the City of the then applicable purchase option price, or all the base rentals, or upon the discharge of the lien on the Indenture.

The lease is considered a capital lease based on GASB's *Codification,* Section L20.119-122 and FASB's Statement 13. The following is an annual schedule of future minimum lease payments receivable:

Year Ending June 30,	
2007	$ 1,501,512
2008	1,535,741
2009	1,566,354
2010	1,602,993
2011	1,635,099
2012-2016	7,271,407
2017-2021	8,042,487
2022-2023	3,720,394
Total remaining minimum lease payments	26,875,987
Less: Amount representing interest	9,120,987
Present value of net remaining minimum lease payments	$ 17,755,000

Note 7. Net Investment in Capital Lease - Washington County – Museum

The Agency and Washington County entered into a direct financing lease agreement, dated May 15, 2000, for the lease of the natural museum facilities constructed by the Agency. The museum (approximately 20,000 square feet) was built as an addition to the Dixie Center. The museum includes a gift shop; a real-life, walk through diorama of several natural habitats throughout the world including the Americas, Africa, South Pacific and Asia; and nearly every large mammal species found on these continents. The museum also contains a hands-on display area and a display specific to southwest interest.

The lease term commenced on the date of delivery of the Series 2000 Bonds and ended December 31, 2000; however, the lease term has been continued and may be continued, solely at the option of the County, beyond the first "renewal term" and for 19 consecutive additional renewal terms thereafter each of one year in duration (except that the final renewal term shall commence January 1, 2020 and end on December 31, 2020).

The County pays base rentals which correspond with the debt service on the Series 2000 Lease Revenue Bonds (see Note 10); thus, the net investment is restricted.

The Agency's right and interest in the facilities will be transferred to the County and the City (See Note 12 - St. George City Sublease Agreement) upon payment by the County and the City of the then applicable purchase option price, or all the base rentals, or upon the discharge of the lien on the Indenture.

The lease is considered a capital lease based on GASB's *Codification,* Section L20.119-122 and FASB's Statement 13. The following is an annual schedule of future minimum lease payments receivable:

Year Ending June 30,	
2007	$ 55,575
2008	56,420
2009	55,195
2010	56,970
2011	55,640
2012-2016	281,095
2017-2021	279,020
	-
Total remaining minimum lease payments	839,915
Less: Amount representing interest	194,915
Present value of net remaining minimum lease payments	645,000

Note 8. Net Investment in Capital Lease - Washington County – Land

The Agency and Washington County entered into a direct financing lease agreement, dated April 30, 2004 for the purpose of financing the acquisition of approximately 8.9 acres of land adjacent to the Convention Center.

The lease term commenced on the date of delivery of the Series 2003 Bonds and ended December 1, 2004; however, the lease term has been continued, and may be continued, solely at the option of the County, beyond the first "renewal term" and for 20 consecutive additional renewal terms thereafter each of one year in duration (except that the final renewal term shall commence January 1, 2023 and end on December 31, 2023).

The County pays base rentals which correspond with the debt service on the $3,049,000 Lease Revenue Bonds (see Note 10); thus, the net investment is restricted.

The Agency's right and interest in the land will be transferred to the County and the City (See Note 12 - St. George City Sublease Agreement) upon payment by the County and the City of the then applicable purchase option price, or all the base rentals, or upon the discharge of the lien on the Indenture.

The lease is considered a capital lease based on GASB's *Codification,* Section L20.119-122 and FASB's Statement 13. The following is an annual schedule of future minimum lease payments receivable:

Year Ending June 30,	
2007	$ 114,117
2008	306,981
2009	306,310
2010	305,856
2011	305,598
2012-2016	1,524,859
2017-2020	1,058,895
Total remaining minimum lease payments	3,922,616
Less: Amount representing interest	873,616
Present value of net remaining minimum lease payments	$ 3,049,000

Note 9. Capital Assets

A summary of changes in fixed assets follows:

	Balance 6/30/2005	Additions	Deletions	Balance 12/31/2005
Capital assets not being depreciated:				
Land	$ 4,595,651	$ -	$ -	$ 4,595,651
Construction in Progress	-	2,002,656	-	2,002,656
Total capital assets, not being depreciated:	4,595,651	2,002,656	-	6,598,307
Capital assets being depreciated:				
Convention Center	$15,273,953	$ -	$ -	$15,273,953
Land Improvements	196,542	-	-	196,542
Regional Park and Improvements	4,308,948	-	-	4,308,948
Machinery and Equipment	656,208	89,824	-	746,032
Seating/Risers	828,166	1,984	-	830,150
Furniture and Fixtures	262,221	-	-	262,221
Museum	3,677,199	-	-	3,677,199
Total capital assets, being depreciated	25,203,237	91,808	-	25,295,045
Less accumulated depreciation for:				
Convention Center	$(3,972,185)	$ (405,492)	$ -	$(4,377,677)
Land Improvements	(126,661)	(13,103)		(139,764)
Regional Park and Improvements	(2,940,686)	(162,592)	-	(3,103,278)
Machinery and Equipment	(517,241)	(30,137)	-	(547,378)
Seating/Risers	(803,776)	(4,116)	-	(807,892)
Furniture and Fixtures	(245,450)	(5,010)	-	(250,460)
Museum	(542,791)	(118,538)	-	(661,329)
Total accumulated depreciation	(9,148,790)	(738,988)	-	(9,887,778)
Total capital assets, being depreciated, net	16,054,447	(647,180)	-	15,407,267
Total capital assets, net	$20,650,098	$ 1,355,476	$ -	$22,005,574

Depreciation expense was charged to the functions/programs of the Agency as follows:

Convention Center	$ 620,450
Museum	118,538
Total depreciation expense	$ 738,988

Note 10. Long-Term Debt

The following is a summary of long-term debt at December 31, 2005:

$20,290,000 Lease Revenue Bonds, Series 1997A, due in semi-annual installments of $49,969 to $1,999,969 through December, 2022; interest at 3.90% to 5.125%. (See footnote 16 regarding swaption agreement associated with this debt.)	$ 17,755,000
$800,000 Lease Revenue Bonds, Series 2000C, due in annual installments of $55,140 to $57,000 through December, 2020, interest at 3.50%.	645,000
$4,542,000 Lease Revenue Bonds, Series 2003, due in annual installements of $166,372 to $359,236 through December, 2023, interest at 3.20% to 4.55%.	3,049,000
Total Long-Term Debt	$ 21,449,000

The following is a summary of changes in long-term debt for the six months ended December 31, 2005:

	Balance 6/30/2005	Additions	Retirements	Balance 12/31/2005	Current Portion
Lease Revenue Bonds, Series 1997A	$ 18,290,000	$ -	$ 535,000	$ 17,755,000	$ 615,000
Lease Revenue Bonds, Series 2000C	678,000	-	33,000	645,000	33,000
Lease Revenue Bonds, Series 2003	3,049,000	-	-	3,049,000	-
Total Long-Term Debt	$ 22,017,000	$ -	$ 568,000	$ 21,449,000	$ 648,000

Note 10. Long-Term Debt, Continued

The annual requirements to amortize long-term debt outstanding at December 31, 2005, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 648,000	$ 1,023,205	$ 1,671,205
2008	911,000	988,141	1,899,141
2009	982,000	945,859	1,927,859
2010	1,067,000	898,819	1,965,819
2011	1,150,000	846,337	1,996,337
2012-2016	5,633,000	3,444,561	9,077,561
2017-2021	7,518,000	1,852,402	9,370,402
2022-2023	3,540,000	190,394	3,730,394
Totals	$ 21,449,000	$ 10,189,718	$ 31,638,718

Revenue Bonds payable are secured by a lease agreement the Agency has with Washington County and a sub-lease agreement with St. George City (See Notes 6, 7 and 8). Although the County and the City cannot be legally bound beyond their current fiscal year for payments to be made to the Agency with respect to the operation and utilization of the facilities, they nonetheless intend to fund their annually renewable obligations to the Agency with certain sales taxes, transient room taxes and other legally available monies.

Note 11. Reserved Fund Equity

Reservations are used to indicate that a portion of the fund equity is not available for appropriation or expenditure, or is legally segregated for a specific future use. At December 31, 2005, the Agency's reserved fund equity balances consist of the following:

Debt Reserve Fund - Series 1997A **	$ -
Repair and Replacement Fund - Series 1997A	237,039
Debt Service Reserve Fund - Series 2003	362,525
Construction - Series 2003	17,478
Accrued Interest	338
	$ 617,380

** - See footnote 15 regarding debt service reserve fund replacement with surety.

Note 12. Agreements and Commitments

St. George City Sub-Lease Agreement:

Washington County has entered into a sub-lease agreement with St. George City, whereby the City has leased a 38% undivided interest in the Agency's convention center and natural museum facilities. The sub-lease is associated with the Agency's direct financing lease described in Notes 6, 7 and 8.

Natural Museum Sub-Lease Agreement:

Washington County and St. George City have entered into a sub-lease agreement with the Rosenbruch Foundation, Inc. (DBA World Wildlife Heritage Foundation), whereby the Rosenbruch Foundation has leased 100% undivided interest in the Agency's natural museum facilities.

Management Services Agreement:

The Agency has entered into a management service agreement with Rosenbruch Foundation, Inc. (Foundation), whereby the Agency agrees to manage the museum. However, this contract was suspended starting August 1, 2001.

Guaranty Agreement:

Jim Rosenbruch and MaryAnn Rosenbruch, as individuals, guarantee the full and prompt payment of the principal and interest and any redemption premium on any then outstanding Series 2000 Bonds. They also guarantee the full and prompt payment of all obligations of the Rosenbruch Foundation, Inc. under the Natural Museum sub-lease agreement.

Management Agreement:

The Agency has entered into an operation and management agreement with Washington County and St. George City, beginning May 1, 2002 where in the County manages sales, marketing, administrative, and other and the City manages building maintenance and other. There are no fees associated with this agreement.

Note 13. Defined Benefit Pension Plan

As of May 1, 2002 the Agency's employees are included in the St. George City and Washington County retirement plans.

Note 14. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions and natural disasters. The Agency maintains insurance for general liability, auto liability, employee dishonesty, and worker's compensation through various policies maintained by Washington County and St. George City. As of December 31, 2005 there were no outstanding unpaid claims. Also, the Agency had no claim settlements during the three years ending December 31, 2005 which exceeded its insurance coverage.

Note 15. Debt Service Reserve Surety Policy

Under the Indenture of Trust for the Series 1997A bonds, the Agency was required to establish a debt service serve fund in the amount of $1,882,000 which it had established with a Treasury note which matured November 30, 2005. The Agency has negotiated with CIFG Assurance of North America, Inc., an Aaa rated insurance provider, to issue a surety policy in lieu of the Debt Service Reserve Fund Requirement. Thus, as of year-end, the Debt Service Reserve Funds have been transferred to the 2005 Construction Fund.

Note 16. Swaption Contract

Objective of the swaption: The Agency entered into a swaption contract that provided the Agency an up-front payment of $1,003,000. As a synthetic refunding of its 1997A bonds, this payment represents the risk-adjusted, present-value savings of a refunding as of October 18, 2007, without issuing refunding bonds on August 2005. The swaption gave Bank of America, the counterparty, the option to make the Agency enter into a pay-fixed, receive-variable interest rate swap. If the option is exercised, the Agency would then expect to issue variable-rate refunding bonds.

Terms: The swaption was entered into in August 2005. The $1,003,000 payment was based on a notional amount of $16,460,000 with a calculation period scheduled to commence on December 1, 2007. The counterparty has the option to exercise the agreement according to the following dates and fees:

Exercise Fee	Exercise Date
$449,102.11	October 18, 2007
449,102.11	April 17, 2008
366,802.11	October 16, 2008
366,802.11	April 16, 2009
284,502.11	October 16, 2009

The above fee schedule represents an estimated cost of the counterparty to fund the call premium and costs associated with a variable rate refunding as of the listed exercise dates. The fee would be received only if the option is exercised.

If the option is exercised, WCIA will issue variable rate refunding bonds based on the Bond Market Association (BMA) Index plus 0.20%. Simultaneously WCIA will enter into a swap agreement with the counterparty which will swap their variable rate payments with a fixed rate transaction. The fixed rate, as a result of the swap, will be 5.1 percent, which was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swap's variable payment to be received from the counterparty would be 70 percent of 1-month London Interbank Offered Rate (LIBOR) plus .20 percent.

Fair Value: Technically, as of December 31, 2005, there is no fair value of the swap since the swap has not been executed. If the option to call bonds is exercised, then the swap agreement will be put into place.

Market-Access Risk: If the option is exercised and variable rate refunding bonds are not issued, the 1997A bonds would not be refunded and the Agency would make net swap payments as required by the terms of the contract; that is, making a fixed payment to the counterparty for the term of the swap at 5.1 percent and receiving a variable payment of 70 percent of 1- LIBOR plus .20 percent. If the option is exercised and the variable-rate bonds are issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the swap (70 percent of 1- LIBOR plus .20 percent).

FEDERAL AND STATE REPORTS

KEMP BURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

Independent Auditors' 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*

MEMBERS:
KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

Executive Director and
Members of the Control Board
Washington County/St. George City Interlocal Agency
St. George, Utah

We have audited the basic financial statements of Washington County/St. George City Interlocal Agency, as of and for the six months ended December 31, 2005, and have issued our report thereon dated June 7, 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.

Compliance

As part of obtaining reasonable assurance about whether Washington County/St. George City Interlocal Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washington County/St. George City Interlocal Agency'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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Agency in the accompanying findings and recommendations letter dated June 30, 2006.

This report is intended solely for the information and use of management, the control board, and the Utah State Auditor and is not intended to be an should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
June 7, 2006

KEMP BURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

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Independent Auditors' Report on Compliance with State Laws and Regulations Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

Executive Director and
Members of the Control Board
Washington County/St. George City Interlocal Agency
St. George, Utah

We have audited the basic financial statements of the Washington County/St. George City Interlocal Agency, for the six months ended December 31, 2005, and have issued our report thereon dated June 7, 2006. Our audit also included test work on the Agency's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Requirements

The Agency did not receive any major or nonmajor State grants during the six months ended December 31, 2005.

The management of the Washington County/St. George City Interlocal Agency is responsible for the Agency's compliance with all compliance 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 Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

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

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In our opinion, Washington County/St. George City Interlocal Agency, complied, in all material respects, with the general compliance requirements identified above for the six months ended December 31, 2005.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
June 7, 2006

KEMP BURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

Findings and Recommendations

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Washington County/St. George City Interlocal Agency
St. George, UT 84770

We wish to commend the Washington County/St. George City Interlocal Agency (the Agency) for their administrative achievements and oversight of the Agency's accounting and budgeting system. During our audit of the funds of the Agency for the six months ended December 31, 2005, we noted a few circumstances that, if improved, would strengthen the Agency's accounting system, control over its assets, and compliance with laws and regulations. These items are discussed below for your consideration.

State Compliance Findings and Recommendations:

None.

General Findings and Recommendations:

05-1 Budgetary Control

Findings

The Agency was under budget in total and by department for the six months ended December 31, 2005 and thus, was in compliance with state budget laws. However, the Agency over expended certain budget line items as reported on page 12 of the financial statements. Due to the fact that the County does the accounting for the Agency and since the County maintains its books on a calendar basis, it is necessary to split fiscal year Agency budgets and combine the last half of the previous fiscal year with the first half of the new fiscal year to calculate the County's calendar year budget for the Agency. This has made it difficult to prepare and track budgets.

Recommendations

We understand that management has implemented the change of the Agency's fiscal year to correspond to the County's calendar year in order to facilitate the budgeting and reporting process for the Agency. This should make the next full calendar year much less complicated to monitor and manage.

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05-02 Bond Payment Transactions and Account Reconciliation

Finding

It appears that significant improvements have been made in recording the bond payment activity and reconciling the related bank accounts; however, it appears that the bond payments are still being coded through the payables system to the debt service accounts instead of the cash accounts. Also, at December 31, 2005, account number 29-25-310-000, Restaurant and Sales Taxes Payable, had a debit balance of $2,672.57.

Recommendation

We recommend that management review the vendor set up for the bond payments and ensure that the general ledger code is set for the appropriate cash accounts. Also, we recommend management review the general ledger activity for the Restaurant and Sales Taxes Payable account to determine the cause of the debit balance and make adjustments as necessary.

Please respond to the above comments in letter form for submission to the State Auditor.

This report is intended solely for the information and use of the Agency's board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the Agency. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit. We look forward to a continued, pleasant professional relationship.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
June 30, 2006