ASHCREEK SPECIAL SERVICE DISTRICT

LAVERKIN

TOQUERVILLE

HURRICANE

PROTECTING WATER QUALITY

A COMPONENT UNIT OF WASHINGTON COUNTY, UTAH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

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FINANCIAL SECTION

HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

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DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
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MICHAEL K. SPILKER
MARK E. TICHENOR

Independent Auditors' Report on the Basic Financial Statements

Superintendent and Members of the Board
Ash Creek Special Service District
La Verkin, UT 84745

We have audited the accompanying basic financial statements of Ash Creek Special Service District, a component unit of Washington County, as of December 31, 2006, and for the year then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the District'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 basic financial statements referred to above present fairly, in all material respects, the financial position of Ash Creek Special Service District, as of December 31, 2006, and the results of its operations and its 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 reports dated May 31, 2007 on our consideration of the District's internal control over financial reporting and on 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 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 information on pages 2 through 4 and the Supplementary Information – Impact Fees information on page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. 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.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
May 31, 2007

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ASH CREEK SPECIAL SERVICE DISTRICT

Management's Discussion and Analysis

As management of Ash Creek Special Service District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

Financial Highlights

The assets of the District exceeded it liabilities at the close of the most recent fiscal year by $15,623,932 (net assets). Of this amount, $2,195,729 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers, employees, and creditors.

The District's total net assets increased during this past fiscal year by $1,324,136. Most of this is attributable to operating revenues (sewer service fees), and non operating revenues (impact fees).

The District acquired capital assets during the past fiscal year of $942,739 which were financed with impact fee funds and sewer service fees.

Overview of the Financial Statements

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenue, Expenses, and Changes in Net Assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged and earned, unused vacation leave).

The Statement of Cash Flows presents the activities of the District on a cash-received and cash-paid basis. This statement shows how cash was spent and reconciles the change in the cash accounts for the District from the prior year to the current year.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District financial position. Assets exceeded liabilities by $15,623,932 at the close of the most recent fiscal year.

The following tables summarize the information presented in the financial statements:

Net Assets

	2006	2005	Change
Current assets	$ 2,229,667	$ 2,450,707	$ (221,040)
Capital assets	15,923,203	14,522,627	1,400,576
Total assets	18,152,870	16,973,334	1,179,536
Current liabilities	156,938	178,538	(21,600)
Long-term liabilities	2,372,000	2,495,000	(123,000)
Total liabilities	2,528,938	2,673,538	(144,600)
Net assets invested in capital assets, net of related debt	9,642,300	8,931,712	710,588
Restricted net assets	3,785,903	3,342,936	442,967
Unrestricted net assets	2,195,729	2,025,148	170,581
Net assets	$15,623,932	$14,299,796	$ 1,324,136

Change in Net Assets

Operating revenues	$ 1,530,940	$ 1,415,156	$ 115,784
Operating expenses	1,429,498	1,204,413	225,085
Operating income (loss)	101,442	210,743	(109,301)
Nonoperating revenues (expenses)	1,222,694	1,943,332	(720,638)
Net income	1,324,136	2,154,075	(829,939)
Net assets, beginning of year	14,299,796	12,145,721	2,154,075
Net assets, end of year	$15,623,932	$14,299,796	$ 1,324,136

The largest portion of the District's total net assets (62%) reflects its investments in capital assets (e.g. land, buildings, and sewer improvements, and machinery, and equipment) less any related dept used to acquire those assets that is still outstanding (e.g. State Water Quality Bonding). The District uses these capital assets to provide service to participating cities and customers; consequently, these assets are not available for future spending. Although the District's investment in capital assets in reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional amount of $402,441 is restricted for the repayment of bonds and $3,383,462 is restricted is restricted for impact fee uses. The remaining balance of unrestricted net assets, $2,195,729, may be used to meet the District's ongoing obligations.

In comparison with the prior year, the following item should be noted:

The District's non-operating impact fee revenue decreased by $720,638, or 37.0%. This decrease was attributable to a slower growth rate than that experienced in 2005.

The District's operating expenses increased by $225,085, or 18.6%. This increase was mostly attributable to increases in fuel, employee expenses and unforeseen line extension.

As discussed in the next section, capital assets increased by $942,739 with no increase to long-term debt.

Capital Asset and Debt Administration

The District acquired capital assets totaling $942,739 most of which was attributable to sewer system upgrades, a new backhoe, the Cove pump station improvements and aeration equipment for lagoon #4. These acquisitions were financed primarily with the use of sewer service fees and when allowable by the use of impact fees. At the end of the current fiscal year, the District had total long term of $2,372,000 (net of current portion of $123,000). All long term debt is scheduled to be retired by February 2022 (see the notes to the financial statements for more information).

Economic Factors and Next Year's Budgets and Rates

The District prepared its 2007 budget anticipating a 32.7% overall growth in sewer service revenues, and a 49.8% growth in impact fee revenues. The increase in both of these fees will be attributed to an increase in sewer service and impact fees adopted at the October 2006 board meeting. The District feels that the sewer service fees were not adequate to cover the cost of the repair and replacement of the sewer system as it ages. The District anticipates the impact fees to stay at the same rate of growth seen in 2006.

The District anticipates that construction and administrative costs will continue to increase. The District plans to hire additional employees and aggressively replace older outdated sewer line. All of these items must come from the Sewer Service fund. The District anticipated an overall increase in expenses of 17.6%. Any unused sewer fund money will be placed in the District's repair and replacement fund.

Requests for Information

This financial report is designed to provide a general overview of the District finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Darrel Humphries at 111 South Main Street, PO Box 361, LaVerkin, UT 84745.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Net Assets
December 31, 2006

	Proprietary Fund Type
Assets	
Current assets:	
Cash and cash equivalents	$ 1,980,500
Accounts receivable	249,167
Total current assets	2,229,667
Noncurrent assets:	
Restricted cash and cash equivalents	3,785,903
Capital assets:	
Land and easements	5,296,995
Buildings	53,225
Office improvements	14,328
Farm equipment	188,379
Equipment	873,863
Sewer system and equipment	10,973,880
Less accumulated depreciation	(5,263,370)
Total capital assets (net of accumulated depreciation)	12,137,300
Total noncurrent assets	15,923,203
Total assets	18,152,870
Liabilities	
Current liabilities:	
Accounts payable	26,555
Accrued liabilities	7,383
Revenue bond payable - current	123,000
Total current liabilities	156,938
Noncurrent liabilities:	
Revenue bond payable	2,495,000
Less current portion	(123,000)
Total noncurrent liabilities	2,372,000
Total liabilities	2,528,938
Net Assets	
Invested in capital assets, net of related debt	9,642,300
Restricted	3,785,903
Unrestricted	2,195,729
Total net assets	$ 15,623,932

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

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2006

	Proprietary Fund Type
Operating revenues	
Charges for sales and services:	
Sewer charges	$ 1,514,006
Other services and revenues	16,934
Total operating revenues	1,530,940
Operating expenses	
Depreciation	350,151
Employee benefits	183,031
Equipment rent	2,832
Fuel	30,484
Insurance	24,978
Lagoon expense	79,342
Miscellaneous	27,837
Office expense	11,202
Payroll taxes	52,574
Power	32,225
Pretreatment costs	1,912
Professional fees	45,308
Repairs and maintenance	113,894
Wages	473,728
Total operating expenses	1,429,498
Operating income	101,442
Non-operating income (expenses)	
Impact fees	1,009,898
Farm net income	51,607
Investment earnings	263,209
Gain/(loss) on sale of assets	2,500
Interest expense	(104,520)
Total non-operating revenue (expenses)	1,222,694
Change in net assets	1,324,136
Total net assets--beginning	14,299,796
Total net assets--ending	$ 15,623,932

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

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Cash Flows
For the Year Ended December 31, 2006

	Proprietary Fund Type
Cash flows from operating activities:	
Receipts from customers and users	$ 1,489,617
Payments to suppliers and others	(632,545)
Payments to employees	(473,402)
Cash flows from operating activities	383,670
Cash flows from investing activities:	
Farm net income	51,607
Interest received	263,209
Cash flows from investing activities	314,816
Cash flows from capital and related financing activities:	
Purchases of capital assets	(942,739)
Impact fees	1,009,898
Proceeds from sales of capital assets	2,500
Principal paid on capital debt	(118,000)
Interest paid on capital debt	(104,520)
Cash flows from capital and related financing activities	(152,861)
Net cash flows	545,625
Cash and cash equivalents at beginning of year	5,220,778
Cash and cash equivalents at end of year	$ 5,766,403
Reconciliation of operating income to cash flows from operating activities:	
Net operating income	$ 101,442
Adjustments to reconcile net operating income to cash flows from operating activities:	
Depreciation	350,151
(Increase) decrease in accounts receivable	(41,323)
Increase (decrease) in accounts payable	(26,926)
Increase (decrease) in accrued liabilities	326
Cash flows from operating activities	$ 383,670

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

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Ash Creek Special Service District (the District) conform with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Reporting Entity - The District was organized on December 17, 1979 by the Washington County Commission to provide a sewer system to the communities of Hurricane, La Verkin and Toquerville, Utah. The District began billing users in these communities in 1982. The sewer system was financed through grants from the Environmental Protection Agency (EPA) and the Farmers Home Administration (FHA), along with two 40 year loans from FHA and local hookup fees. During June 1988, the District refinanced the FHA loans with 20 year bonds acquired through Zions First National Bank. The existing sewer system in Hurricane was purchased by the District and merged into the new system. There are no other agencies or component units that should be associated with these financial statements. The District is classified as a component unit of Washington County.

Fund Accounting - The District's accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's only fund is a proprietary type that accounts for the District's sewer system operations.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only fund of the District is an enterprise fund. The accrual basis of accounting is generally followed as revenues are from services that are susceptible to accrual and expenses are recorded when the liability is incurred. The District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Operating and Nonoperating - Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Note 1. Summary of Significant Accounting Policies, Continued

Budget Policy and Process - The District adopts an annual budget. The budget is prepared on the cash basis. The service district is required to submit the budget to the Utah State Auditor's Office after it has been adopted by the Board. Budgetary information has been amended during the year. Budget appropriations lapse at year-end.

Source of Revenues - Revenues are generated from the three communities within the District, which bill and collect monthly fees from residents of these communities.

Encumbrances - Encumbrance accounting is not used.

Cash and Cash Equivalents - The District's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Inventory - The District's inventory of material and supplies is deemed to be immaterial, and therefore, no provision for inventory has been made in these financial statements.

Capital Assets - Fixed assets are carried at cost. Depreciation is computed using the straight-line method over the assets estimated useful lives as follows:

Furniture and equipment	5-7 years
Buildings and improvements	15-40 years
Sewer system	10-40 years

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Note 1. Summary of Significant Accounting Policies, Continued

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 these estimates.

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

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

Risk Management - The District maintains insurance for general liability, auto liability and employee dishonesty through Bringhurst-Leavitt Insurance Agency and worker's compensation through Utah Local Government's Insurance Trust.

Note 2. Deposits and Investments

Deposits and investments of the District at December 31, 2006 consist of the following:

Deposits		
Cash in bank	$	101,749
Investments		
State treasurer's investment pool		5,664,654
	$	5,766,403

Note 2. Deposits and Investments, Continued

A reconciliation of cash and investments as shown on the Statement of Net Assets is as follows:

Cash and cash equivalents	$ 1,980,500
Restricted cash and cash equivalents	3,785,903
	$ 5,766,403

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 District 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 District funds in a 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.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the District's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of December 31, 2006, $54,257 of the District's bank balance of $154,257 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the District 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.

Note 2. Deposits and Investments, Continued

Statutes authorize the District 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.

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. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's Office.

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 value of the PTIF investment pool is approximately equal to the value of the pool shares.

Note 2. Deposits and Investments, Continued

As of December 31, 2006 the District had the following investments and maturities:

		Investments Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Utah State Public Treasurer's Investment Fund	$ 5,664,654	$ 5,664,654	$ -	$ -	$ -
Total Fair Value	$ 5,664,654	$ 5,664,654	$ -	$ -	$ -

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District'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 District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

At December 31, 2006 the District had the following investments and quality ratings:

		Quality Ratings			
Investment Type	Fair Value	AAA	AA	A	Unrated
Utah State Public Treasurer's Investment Fund	$ 5,664,654	$ -	$ -	$ -	$ 5,664,654
Total Fair Value	$ 5,664,654	$ -	$ -	$ -	$ 5,664,654

Note 3. Accounts Receivable

Accounts receivable at December 31, 2006 consists of the following:

	0-30 Days	31-60 Days	> 90 Days	Total
Hurricane City	$ 118,990	$ 92,886	$ -	$ 211,876
La Verkin City	25,287	-	-	25,287
Toquerville City	6,241	-	5,763	12,004
Total	$ 150,518	$ 92,886	$ 5,763	$ 249,167

Due to the nature of the accounts receivable, management does not consider an allowance for uncollectible accounts receivable necessary or material.

Note 4. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Capital assets, not being depreciated:				
Land and easements	$ 5,296,995	$ -	$ -	$ 5,296,995
Total capital assets, not being depreciated	5,296,995	-	-	5,296,995
Capital assets, being depreciated:				
Buildings	53,225	-	-	53,225
Office improvements	14,328	-	-	14,328
Farm equipment	188,379	-	-	188,379
Equipment	742,489	142,359	10,985	873,863
Sewer system	10,173,500	800,380	-	10,973,880
Total capital assets, being depreciated	11,171,921	942,739	10,985	12,103,675
Less: accumulated depreciation for:				
Buildings	(5,877)	(1,331)	-	(7,208)
Office improvements	(191)	(358)	-	(549)
Farm equipment	(186,337)	(1,067)	-	(187,404)
Equipment	(445,136)	(86,037)	(10,985)	(520,188)
Sewer system	(4,286,663)	(261,358)	-	(4,548,021)
Total accumulated depreciation	(4,924,204)	(350,151)	(10,985)	(5,263,370)
Total capital assets, being depreciated, net	6,247,717	592,588	-	6,840,305
Total capital assets, net	$ 11,544,712	$ 592,588	$ -	$ 12,137,300

Note 5. Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2006:

	Balance 12/31/2005	Additions	Retirements	Balance 12/31/2006	Current Portion
Revenue bonds payable	$ 2,613,000	$ -	$ 118,000	$ 2,495,000	$ 123,000
Total long-term liabilities	$ 2,613,000	$ -	$ 118,000	$ 2,495,000	$ 123,000

Revenue bonds payable at December 31, 2006 consists of the following issue:

Parity Sewer Revenue Bond Series 2000 due in annual principal and interest installments ranging from $37,440 to $223,000 bearing interest at 4.0%, maturing February 1, 2022.	$ 2,495,000
Total bonds payable	$ 2,495,000

The annual requirement to amortize revenue bonds payable at December 31, 2006 is as follows:

Fiscal Year Ended Dec 31	Parity Sewer Rev Bond - 2000	
	Principal	Interest
2007	123,000	99,800
2008	128,000	94,880
2009	133,000	89,760
2010	138,000	84,440
2011	144,000	78,920
2012-2016	808,000	303,760
2017-2021	985,000	128,480
2022	36,000	1,440
Total	$ 2,495,000	$ 881,480

Note 6. Restricted Net Assets

At December 31, 2006, the District's restricted net assets consists of the following:

Debt service	
Bond fund	$ 204,233
Reserve fund	198,208
Total debt service	402,441
Impact fee uses	3,383,462
Total restricted	$3,785,903

Note 7. Retirement Plan

Plan Description

The District contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

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, UT 84102 or by calling 1-800-365-8772.

Note 7. Retirement Plan, Continued

Funding Policy

In the Local Governmental Noncontributory Retirement System, the District was required to contribute 11.09% from January to June and 11.59% from July to December of the employee's annual covered salary. The contribution rate is the actuarially determined rate, and is approved by the Board as authorized by Chapter 49.

The required contributions and amounts received for the 2006 calendar year and the two previous years are as follows:

	Year Ended 12/31	Employee paid contributions	Employer paid for employee contributions	Employer contributions	Salary subject to retirement contributions
Noncontributory System:					
Local Governmental Division					
	2006	$ -	$ -	$ 53,546	$ 471,142
	2005	-	-	43,741	394,419
	2004	-	-	35,048	337,133
Defined Contribution System:					
457 Plan	2006	$ 7,414	$ -		
	2005	4,449	-		
	2004	2,951	-		
401(k) Plan	2006	$ 3,882	$ -		
	2005	1,852	-		
	2004	4,517	-		

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

SUPPLEMENTARY INFORMATION

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Supplementary Information – Impact Fees
December 31, 2006

During the 2006 legislative session, the Utah Legislature modified UC10-5-29 and UC17A-1-4 requiring governments who collect impact fees to provide additional reporting in their financial statements. The following schedule presents the required information:

Fiscal Year	Fees Collected	Interest Earned	Expenditures	Explanation of Expenditures	Accumulated Balance
2005	$ 1,875,600	$ 68,817	$ 701,116	Sewer system	$ 2,977,915
2006	1,009,898	130,700	735,051	Sewer system	3,383,462

OTHER COMMUNICATIONS

FROM

INDEPENDENT AUDITORS

HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

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

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*

Superintendent and Members of the Board
Ash Creek Special Service District
La Verkin, Utah

We have audited the financial statements of the Ash Creek Special Service District, a component unit of Washington County, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 31, 2007. 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination or control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting.

05-01. Uncorrected Accounts
05-02. Segregation of Duties

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06-01. Sewer Fee Completeness Controls
06-02. Payroll Accuracy Controls
06-03. Sufficient Accounting Expertise

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 05-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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*.

We noted certain matters that we reported to management of the District in a separate communication.

The District's responses to the findings identified in our audit are described in the accompanying schedule of responses to the findings. We did not audit the District's response, and accordingly, we express no opinion on it.

This report is intended for the information of the Superintendent, District 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.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
May 31, 2007

HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

MEMBERS:
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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 the State of Utah Legal Compliance Audit Guide

Superintendent and Members of the Board
Ash Creek Special Service District
La Verkin, Utah

We have audited the accompanying financial statements of Ash Creek Special Service District; a component unit of Washington County; for the year ended December 31, 2006, and have issued our report thereon dated May 31, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2006.

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

The District did not receive any major or nonmajor State grants during the year ended December 31, 2006.

The management of Ash Creek Special Service District is responsible for the District'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 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.

In our opinion, Ash Creek Special Service District complied, in all material respects, with the general compliance requirements identified for the year ended December 31, 2006.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
May 31, 2007

HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
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ASH CREEK SPECIAL SERVICE DISTRICT
Findings and Recommendations
For the Year Ended December 31, 2006

Superintendent and
Members of the Board
La Verkin, Utah

During our audit of the fund of the Ash Creek Special Service District for the year 2006, we found circumstances that, if improved, would strengthen the District's accounting system and control over its assets. These items are discussed below for your consideration:

Material Weakness Findings and Recommendations:

05-01. Uncorrected Accounts (Reissued)

Finding

Even though the District has made improvements in tracking some balance sheet accounts, the District does not properly account for certain accounts. Capital assets are being expensed as opposed to being capitalized. Liability payments are being expensed in full instead of the principal payments reducing the liability accounts. Accounts payable and accounts receivable balances were not updated from 12/31/05. The District is not maintaining its own depreciation schedules and recording it properly. A newly issued professional standard, Statement on Auditing Standards #112, indicates that this control weakness is a material weakness in the District's internal control.

Recommendation

We recommend that the District account for all accounts properly. Fixed assets should be properly capitalized as capital assets and the principal portion of liability payments should reduce the appropriate liability account instead of being recorded as an expense. Year-end adjustments should be made to receivable and payable accounts so the year-end financial statements are accurate. Also, the District should acquire appropriate depreciation software and District personnel should properly record depreciation in your financial records at least annually.

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Significant Deficiency Findings and Recommendations:

05-02. Segregation of Duties (Reissued)

Findings

We understand that the size of the District and its administrative staff prohibit the complete and proper segregation of duties within its accounting functions; as a result, custody of assets and recording functions are not properly segregated for the cash receipts and expenses/accounts payable functions. Management has implemented controls such as management's review of disbursements that mitigate this weakness such that it is not deemed to be a material weakness; however, such segregation of duties provide important safeguards and controls to insure the proper recording, deposit and disposition of the District's funds.

Recommendation

As the District continues to grow and additional staff are considered necessary, we recommend that management consider ways that segregation of duties can be achieved within its accounting and administrative functions. We would be glad to assist the District in the design and/or implementation of job descriptions and duties to properly achieve this segregation. We also recommend that management continue to monitor disbursements.

06-01. Sewer Fee Completeness Controls

Finding

During our audit, we noted that the District only received 11 monthly payments during 2006 from the City of Toquerville. After further investigation, it was determined that the City of Toquerville never sent the payment to the District. The District was unaware of the missing payment from the City of Toquerville.

Recommendation

We recommend that the District establish additional controls to ensure that all sewer fees are collected in a timely manner. Furthermore, the District should continue to follow its existing controls of the Board reviewing quarterly budget-to-actual reports and monthly lists of deposits for additional oversight.

06-02. Payroll Accuracy Controls

Finding

As we were obtaining our understanding of the District's internal controls, we noted a discrepancy in pay rates. The hourly rate for the superintendent per QuickBooks (actual pay is based on this rate) was $0.95 greater than the hourly rate (based on 2,080 hours) per the five-year wage plan (January – June 2006).

Recommendation

We recommend that the District establish additional controls to ensure that payroll information is entered into the District's accounting system so that payroll is accurately processed.

06-03. Sufficient Accounting Expertise

Finding

Newly issued Statement on Auditing Standards #112 indicates that it is a significant deficiency in the District's internal controls when the District's personnel do not have sufficient expertise to select and apply generally accepted accounting policies. It is our opinion that the District's personnel lack that level of expertise in the accounting field.

Recommendation

We suggest the District consider providing its accounting personnel with the appropriate training to provide them with the needed accounting expertise.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by State law.

This letter is intended solely for the use of the Superintendent, District 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 District this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit, especially Darrel Humphries. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
May 31, 2007

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Ash Creek Special Service District

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ASH CREEK SPECIAL SERVICE DISTRICT
Response to Findings and Recommendation
For the Year Ended December 31, 2006

June 22, 2007

Hinton, Burdick, Hall & Spilker, PLLC
63 S. 300 E., Suite 100
St. George, UT 84770

05-01 Uncorrected Accounts

Response

The District will continue to make changes to the way the balance sheet accounts are kept. We will attempt to have all accounts posted into the accounting software before the end of the year. We will look at what is needed for deprecation software.

05-02 Segregation of Duties

Response

The District will add additional safeguards to its internal controls policy, and will continue to segregate financial duties as additional staff is hired. Until that time, the District will continue to have management and board reviews of income and expenses.

06-01 Sewer Fee Completeness Controls

Response

The District has started an end of the month review of the sewer service fees to insure the payments from the cities and county are received.

06-02 Payroll Accuracy Controls

Response

This was a one time error made in figuring the hourly wage or in entering the information into the accounting software. In the future all wage information will be doubled checked by a second employee.

06-03 Sufficient Accounting Expertise

Response

The District will continue to send accounting personnel to training as needed. As District staff is increased additional office staff will be hired.

We appreciate the excellent service that your firm has provided us this year. We would especially like to thank David Wittwer for his hard work. If there is any further information you need, please feel free to contact us at the District office.

Sincerely,

Darrel Humphries, Clerk
Ash Creek Special Service District