

GRANGER-HUNTER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-8
FINANCIAL STATEMENTS:	
BALANCE SHEET	9-10
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	11
STATEMENT OF CASH FLOWS	12-13
NOTES TO FINANCIAL STATEMENTS	14-24
SUPPLEMENTAL SCHEDULES:	
SCHEDULE I – BUDGET TO ACTUAL COMPARISON	26
SCHEDULE II – SCHEDULE OF IMPACT FEES	27
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 <i>GOVERNMENT AUDITING STANDARDS</i>	28-29
INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE	30



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Granger-Hunter Improvement District
Salt Lake City, Utah

We have audited the accompanying basic financial statements of Granger-Hunter Improvement District as of and for the year ended December 31, 2006, as listed in the table of contents. These 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 Granger-Hunter Improvement District as of December 31, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 1, 2007, on our consideration of Granger-Hunter Improvement District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Pinnock, Robbins, Posey & Richins

June 1, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Granger-Hunter Improvement District's (the District) annual financial report presents our analysis of the District's financial performance during the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the District's financial activities.

Financial Highlights:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$104,904,238 (net assets). Of this amount, \$33,472,570 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$8,402,792. Approximately 32% of this increase is made up of one-time impact fee charges that are restricted to pay for capital improvements to accommodate growth within the District. The remaining increase includes net revenues (45%) and developer contributed water and sewer lines (23%).
- The District's operating revenues increased by \$1,312,123 (6.8%) in comparison with the prior year. The key factors in this change included water sales due to a warmer than average summer, and a small amount of growth in new connections.
- The District's total debt increased by \$667,627 for 2006. In 2007, the District closed on a \$10 million bond to finance various water and wastewater construction projects.

Overview of Financial Report:

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of the District's financial condition and performance.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the District on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, non-capital and related financing, capital and related financing, and investing activities. In other words, it provides information regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

Financial Analysis:

To begin our analysis, a summary of the District's balance sheet is presented in the schedule below.

**Granger-Hunter Improvement District
Condensed Balance Sheet**

	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 49,569,978	\$ 44,092,174
Capital Assets	<u>72,224,581</u>	<u>69,286,427</u>
Total Assets	<u>\$ 121,794,559</u>	<u>\$ 113,378,601</u>
Current Liabilities	\$ 2,437,158	\$ 3,261,592
Noncurrent Liabilities	<u>14,453,163</u>	<u>13,615,563</u>
Total Liabilities	<u>16,890,321</u>	<u>16,877,155</u>
Net Assets Invested in Capital Assets, Net of Related Debt	65,662,596	62,053,330
Net Assets Restricted for Capital Improvements	5,769,072	5,634,372
Net Assets Unrestricted	<u>33,472,570</u>	<u>28,813,744</u>
Total Net Assets	<u>104,904,238</u>	<u>96,501,446</u>
Total Liabilities and Net Assets	<u>\$ 121,794,559</u>	<u>\$ 113,378,601</u>

The balance sheet includes all of the District's assets and liabilities, and equity which is categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$104,904,238 at the end of the year, an increase of 8.7% compared to last year. The largest portion of the District's net assets, \$65,662,596 (62.6%), reflects its investment in capital assets (e.g., land, buildings, water and sewer lines, and equipment). The District uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the District's net assets, \$5,769,072 (5.5%) represents resources that are subject to external restrictions on how they may be used.

While the balance sheet shows the change in financial position of net assets, the summary of the District's statement of revenues, expenses and changes in net assets, provides information regarding the nature and source of these changes as seen in the following schedule. Net assets increased in 2006 by \$8,402,792.

**Granger-Hunter Improvement District
Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 20,526,606	\$ 19,214,483
Non-operating Revenues	<u>7,406,736</u>	<u>5,416,599</u>
Total Revenues	<u>27,933,342</u>	<u>24,631,082</u>
Depreciation and Amortization Expense	4,081,703	3,933,593
Other Operating Expense	15,408,403	15,416,203
Non-operating Expense	<u>1,982,544</u>	<u>2,879,110</u>
Total Expenses	<u>21,472,650</u>	<u>22,228,906</u>
Income Before Capital Contributions	6,460,692	2,402,176
Capital Contributions	<u>1,942,100</u>	<u>490,505</u>
Change in Net Assets	8,402,792	2,892,681
Net Assets - Beginning of Year (as restated)	<u>96,501,446</u>	<u>93,608,765</u>
Net Assets - Ending of Year	<u>\$ 104,904,238</u>	<u>\$ 96,501,446</u>

Capital Asset and Debt Administration:

Capital assets. The District's investment in capital assets as of December 31, 2006, amounts to \$72,224,581 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and sewer systems, and machinery and equipment. The District's investment in capital assets for the current fiscal year increased by 4.2 percent overall.

Major capital asset events during the current fiscal year included the following:

- Construction of a 2 million gallon reservoir to support residential development in the District's Zone No. 5.
- Construction of new or replacement water lines on 6400 West, Redwood Road, 4000 West, and 7200 West.
- Phase 2 construction of a water line between well 8 and well 14 to provide backup service and provide blending of the water to be in compliance with state and federal regulations.
- Replacement of old cast iron water pipelines with new and larger PVC pipe.
- Purchase of new water meters and MXU's which allow for electronic radio reading of meters.
- Phase 1 of the Parkway Sewer Line project.
- Sewer main lining project
- Water and sewer lines contributed to the District by developers.

**Capital Assets
Net of Depreciation**

	<u>2006</u>	<u>2005</u>
Land	\$ 1,952,809	\$ 1,910,227
Buildings and improvements	4,375,765	4,587,218
Water system	26,621,938	21,782,376
Sewage pumping plant	7,864,880	8,227,178
Sewage collection lines	28,566,346	29,048,512
Transportation equipment	505,493	592,559
Engineering and other equipment and tools	2,146,929	1,683,069
Office furniture and equipment	18,560	18,016
Construction in progress	<u>171,861</u>	<u>1,437,272</u>
TOTAL	<u>\$ 72,224,581</u>	<u>\$ 69,286,427</u>

Additional information on the District's capital assets can be found in Note 3.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt of \$15,378,869. The debt represents bonds secured solely by specified revenue sources. The District's debt increased by \$667,627 during the current fiscal year. The District has no outstanding general obligation debt.

Long-Term Debt

	<u>2006</u>	<u>2005</u>
Special assessment bonds	\$ -	\$ 163,000
Water and sewer revenue bonds, net of bond premium	<u>15,378,869</u>	<u>14,548,241</u>
TOTAL	<u>\$ 15,378,869</u>	<u>\$ 14,711,241</u>

The District maintains an insured "AAA" debt rating from Standard & Poors on its revenue bond debt.

Additional information on the District's long-term debt can be found in Note 5.

Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Controller of the Granger-Hunter Improvement District, 2888 South 3600 West, West Valley City, Utah 84170 or by telephone (801)968-3551.

GRANGER-HUNTER IMPROVEMENT DISTRICT

BALANCE SHEET

DECEMBER 31, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 16,607,810
Receivables:	
Property tax	56,550
Water and sewer charges, net of allowance for doubtful accounts of \$70,000	2,420,785
Due from other governmental units	24,309
Inventory	<u>653,362</u>
TOTAL CURRENT ASSETS	<u>19,762,816</u>

NONCURRENT ASSETS:

Restricted cash and cash equivalents	<u>5,769,072</u>
Capital assets:	
Capital assets not being depreciated	2,124,670
Capital assets being depreciated, net of accumulated depreciation	<u>70,099,911</u>
TOTAL CAPITAL ASSETS	<u>72,224,581</u>

Other assets:

Advances to Central Valley Water Reclamation Facility	264,050
Investment in Central Valley Water Reclamation Facility	23,656,766
Water rights	57,601
Deferred bond issuance costs, net	<u>59,673</u>
TOTAL OTHER ASSETS	<u>24,038,090</u>

TOTAL NONCURRENT ASSETS 102,031,743

TOTAL ASSETS \$ 121,794,559

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 532,487
Accrued and other liabilities	642,355
Due to other governmental units	17,728
Accrued interest on bonds payable	260,993
Revenue bonds payable – current	925,706
Customer water deposits	<u>57,889</u>

TOTAL CURRENT LIABILITIES 2,437,158

NONCURRENT LIABILITIES:

Revenue bonds payable (net of unamortized premium and discount)	<u>14,453,163</u>
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TOTAL NONCURRENT LIABILITIES 14,453,163

TOTAL LIABILITIES 16,890,321

NET ASSETS:

Invested in capital assets, net of related debt	65,662,596
Restricted for Capital improvements	5,769,072
Unrestricted	<u>33,472,570</u>

TOTAL NET ASSETS 104,904,238

TOTAL LIABILITIES AND NET ASSETS \$ 121,794,559

GRANGER-HUNTER IMPROVEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES:	
Metered water sales	\$ 12,065,580
Sewer service charges	7,925,012
Other	<u>536,014</u>
TOTAL OPERATING REVENUES	<u>20,526,606</u>
OPERATING EXPENSES:	
Direct operation and maintenance	9,528,310
General and administrative	5,880,093
Depreciation and amortization	<u>4,081,703</u>
TOTAL OPERATING EXPENSES	<u>19,490,106</u>
OPERATING INCOME	<u>1,036,500</u>
NON-OPERATING REVENUES (EXPENSES):	
Property taxes	3,625,191
Impact fees	2,647,299
Interest income	1,129,041
Gain on disposal of assets	5,205
Interest expense	(588,317)
Equity in net loss of Central Valley Water Reclamation Facility	<u>(1,394,227)</u>
TOTAL NON-OPERATING REVENUES	<u>5,424,192</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	6,460,692
DEVELOPER CONTRIBUTED WATER AND SEWER LINES	<u>1,942,100</u>
CHANGE IN NET ASSETS	8,402,792
NET ASSETS - BEGINNING OF YEAR	<u>96,501,446</u>
NET ASSETS - END OF YEAR	<u>\$ 104,904,238</u>

See accompanying notes to the financial statements.

GRANGER-HUNTER IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$20,564,997
Payments to suppliers	(12,877,424)
Payments to employees	<u>(3,102,106)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,585,467</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Property taxes collected	<u>3,704,622</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>3,704,622</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Impact fees received	2,558,560
Proceeds from bonds issued by Central Valley Water Reclamation Facility	1,667,811
Acquisition and construction of capital debt	(5,071,886)
Principal paid on capital debt	(1,061,745)
Interest paid on capital debt	(539,892)
Proceeds from sale of assets	<u>5,205</u>
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,441,947)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital acquisitions in Central Valley Water Reclamation Facility	(2,008,665)
Interest received	<u>1,129,041</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(879,624)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,968,518
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>17,408,364</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$22,376,882</u>
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalents - unrestricted	\$16,607,910
Cash and cash equivalents - restricted	<u>5,769,072</u>
	<u>\$22,376,882</u>

See accompanying notes to the financial statements.

GRANGER-HUNTER IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2006

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 1,036,500
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization	4,081,703
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	81,180
Due from other governmental units	(24,309)
Inventory	(37,020)
Increase (decrease) in:	
Accounts payable	(592,547)
Accrued and other liabilities	58,440
Customer water deposits	<u>(18,480)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 4,585,467

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The District received water and sewer lines from subdividers in the amount of \$1,942,100 in 2006, which represent the fair value of lines deeded to the District. These additions were accounted for as capital contributions in the statement of revenues, expenses and changes in net assets.

The District recognized its proportionate share of equity in the net loss of Central Valley Water Reclamation Facility in the amount of \$1,394,227 for the year ended December 31, 2006.

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

1. SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

A. Reporting Entity

Granger-Hunter Improvement District (the District) is a municipal corporation governed by an elected three member board. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The District was established by resolution of the Board of County Commissioners of Salt Lake County in 1950. Salt Lake County has no oversight responsibility over the District and the District is not reported as a component unit of Salt Lake County. The District has no blended or discretely presented component units.

B. Measurement Focus and Basis of Accounting

The District is an enterprise fund, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

C. Cash and Cash Equivalents

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

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments are carried at cost which approximates market.

D. Restricted Cash and Cash Equivalents

Certain resources set aside for bond repayment are classified as restricted on the balance sheet because their use is limited by applicable bond covenants. Other cash accounts are restricted by state law.

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

E. Inventory

The District's inventory is comprised of water meters, replacement parts and supplies used in the construction and repair of water and sewer lines. The District values its inventory at the lower of cost or market using the first-in, first-out (FIFO) method.

F. Capital Assets

Capital assets are stated at cost. Normal maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. The net book value of property sold or otherwise disposed of, is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included in income.

Capital assets donated to the District are recorded at the estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current fiscal year.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Sewer and Water Lines	10-60 years
Office Building	10-40 years
Furniture and Fixtures	2-10 years
Automobiles and Trucks	3-10 years
Tools and equipment	1-10 years

G. Joint Venture

The District accounts for its interest in a joint venture using the equity method of accounting.

H. Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. All full time employees may carry a maximum of ten days accrued vacation time from year to year, and will not be permitted to accrue more than the employee's regular earned vacation time plus ten accrued vacation days from the prior year. All vested vacation benefits shall be paid upon termination of employment.

Unused sick leave may be carried over from one year to the next. Upon retirement, an employee may elect to apply unused sick leave in one of the following two ways:

1. Receive payment in cash equal to one hundred percent of the value of the employee's accrued and unused sick leave; or
2. Exchange twelve hours of unused sick leave for one month's coverage under the District's group health and accident plan. This benefit is available until the employee is eligible for Medicare benefits.

GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

H. Vacation, Sick Leave, and Other Compensated Absences (continued)

In the event of termination other than retirement, unused sick leave will be lost.

I. Allowance for Doubtful Accounts

The District recorded bad debt expense in setting up an allowance for doubtful accounts on water and sewer fees during the current fiscal year. Unpaid fees are certified to the county and attached as liens on the related real estate where allowable.

J. Property Tax Revenues

Property taxes are levied on January 1st based on the assessed value of property as listed on the previous May 31st. Assessed values are an approximation of market value. An evaluation of all real property must be made every year by the county assessor. Property taxes are delinquent after November 30. The District's tax rate for 2006 was .000705. The District appropriates the entire amount to operations and maintenance. The statutory maximum set by the state for operations and maintenance is .000800. There is no statutory maximum for the reduction of general obligation bonds.

K. Budgetary Accounting

For management and control purposes, the District adopts and maintains a budget each year. The budget is maintained on a cash basis. Items budgeted, but not expended, are not carried over to succeeding years. Each budget item must be reapproved in each budget year.

2. 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 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.

A. Deposits

	<u>Bank</u> <u>Balances</u>	<u>Book</u> <u>Balances</u>
Cash on hand	\$ -	\$ 200
Cash on deposit	<u>1,647</u>	<u>(210)</u>
TOTAL	<u>\$ 1,647</u>	<u>\$ (10)</u>

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, none of the District's bank balances were uninsured and uncollateralized.

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments 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.

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
State of Utah Public Treasurer's					
Investment Fund	\$ 3,078,692	\$ 3,078,692	\$ -	\$ -	\$ -
Grand Cayman	3,978,877	3,978,877	-	-	-
Money Market Funds	316,718	316,718	-	-	-
U.S. Agencies	1,462,250	449,664	1,012,586	-	-
U.S. Corporate Bonds	5,846,296	5,846,296	-	-	-
Commercial Paper	<u>7,694,059</u>	<u>7,694,059</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTALS	<u>\$22,376,882</u>	<u>\$21,364,296</u>	<u>\$1,012,586</u>	<u>\$ -</u>	<u>\$ -</u>

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

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. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

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 as previously discussed. As of December 31, 2006, the District's investments in Money Market Funds were rated AAA by Standard & Poor's. The District's investments in U.S. Agencies were rated AAA and from A-1 to A-1+ by Standard & Poor's. The District's investments in U.S. Corporate bonds were rated AAA and from A- to AA+ by Standard & Poor's. The District's investments in Commercial Paper were rated from A-1 to A-1+ by Standard & Poor's. The District's investments in the State of Utah Public Treasurer's Investment Fund and the Grand Caymans were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

3. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,910,227	\$ 42,582	\$ -	\$ 1,952,809
Construction in progress	<u>1,437,272</u>	<u>166,375</u>	<u>(1,431,786)</u>	<u>171,861</u>
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>3,347,499</u>	<u>208,957</u>	<u>(1,431,786)</u>	<u>2,124,670</u>
Capital assets, being depreciated:				
Buildings and improvements	6,632,561	8,955	-	6,641,516
Water system	40,533,624	6,183,725	-	46,717,349
Sewage pumping plant	12,372,790	10,405	-	12,383,195
Sewage collection lines	48,327,685	1,157,858	-	49,485,543

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Transportation equipment	\$ 2,598,628	\$ 133,455	\$ -	\$ 2,732,083
Engineering and other equipment and tools	4,438,075	726,622	(20,681)	5,144,016
Office furniture and equipment	<u>357,112</u>	<u>15,795</u>	<u>(19,864)</u>	<u>353,043</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>115,260,475</u>	<u>8,236,815</u>	<u>(40,545)</u>	<u>123,456,745</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,045,343)	(220,408)	-	(2,265,751)
Water system	(18,751,248)	(1,344,163)	-	(20,095,411)
Sewage pumping plant	(4,145,612)	(372,703)	-	(4,518,315)
Sewage collection lines	(19,279,173)	(1,640,024)	-	(20,919,197)
Transportation equipment	(2,006,069)	(220,521)	-	(2,226,590)
Engineering and other equipment and tools	(2,755,006)	(262,762)	20,681	(2,997,087)
Office furniture and equipment	<u>(339,096)</u>	<u>(15,251)</u>	<u>19,864</u>	<u>(334,483)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(49,321,547)</u>	<u>(4,075,832)</u>	<u>40,545</u>	<u>(53,356,834)</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>65,938,928</u>	<u>4,160,983</u>	<u>-</u>	<u>70,099,911</u>
CAPITAL ASSETS, NET	<u>\$69,286,427</u>	<u>\$ 4,369,940</u>	<u>\$(1,431,786)</u>	<u>\$72,224,581</u>

4. UNREMITTED PROPERTY LIENS

Unremitted property liens as of December 31, 2006, in the amount of \$3,969 represent the total amount of past due accounts receivable, which have been referred to the Salt Lake County Treasurer's office for attachment to the related real estate property as liens.

5. LONG-TERM DEBT

Revenue Bonds

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$16,311,615. During 2005, revenue bonds totaling \$7,480,000 were issued to refund the Series 1998 water and sewer revenue refunding bonds. Revenue bonds outstanding at December 31, 2006 were as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Refunding	3.25% - 4.00%	\$ 6,970,000
		<u>\$ 6,970,000</u>

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 525,000	\$ 249,075	\$ 774,075
2008	550,000	231,606	781,606
2009	550,000	213,731	763,731
2010	580,000	195,369	775,369
2011	600,000	173,944	773,944
Thereafter	<u>4,165,000</u>	<u>495,448</u>	<u>4,660,448</u>
TOTALS	<u>\$ 6,970,000</u>	<u>\$ 1,559,173</u>	<u>\$ 8,529,173</u>

Central Valley Revenue Bonds

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Central Valley Water Reclamation Facility has issued taxable sewer revenue bonds totaling \$35,000,000 at 3% for a term of 20 years, to fund the post - 1993 ownership of the treatment facility. The District's share of the bonds is \$10,466,205.

Although the revenue bonds are in the name of Central Valley Water Reclamation Facility, the members are responsible to fund debt service requirements over the life of the bonds. The amount distributed to members in the previous year was \$23,000,000. The remaining bond funds drawn down as of December 31, 2006 (\$7,585,000) were used to fund a Central Valley project and have become the members' obligation. Granger-Hunter Improvement District's share of the \$23,000,000 bond distributed is \$7,478,145, and its share of the additional draw down of \$7,585,000 is \$1,667,811.

The District's share of the Central Valley revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 400,706	\$ 262,716	\$ 663,422
2008	403,696	250,695	654,391
2009	409,677	238,584	648,261
2010	433,599	226,294	659,893
2011	448,551	213,286	661,837
2012-2016	2,422,175	857,316	3,279,491
2017-2021	2,784,007	473,715	3,257,722
2022-2024	<u>1,454,800</u>	<u>75,043</u>	<u>1,529,843</u>
TOTALS	<u>\$ 8,757,211</u>	<u>\$ 2,597,649</u>	<u>\$ 11,354,860</u>

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

Advance Refundings

The government issued Water and Sewer Revenue Refunding Bonds, Series 2005, in February 2005. The proceeds of the bond issue, along with funds provided by the District, were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$11,875,000 of the Water and Sewer Revenue and Refunding Bonds, Series 1998. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$551,439. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the refunded debt. As of December 31, 2006, there was \$10,620,000 outstanding on the defeased Water and Sewer Revenue Bonds, Series 1998.

Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 7,643,000	\$ -	\$ (673,000)	\$ 6,970,000	\$ 525,000
Less deferred amounts on refunding	(484,220)	-	72,722	(411,498)	-
Add bond premiums	74,317	-	(11,161)	63,156	-
CVWRF revenue bonds	<u>7,478,145</u>	<u>1,667,811</u>	<u>(388,745)</u>	<u>8,757,211</u>	<u>400,706</u>
 TOTAL BONDS PAYABLE	 <u>\$ 14,711,242</u>	 <u>\$ 1,667,811</u>	 <u>\$ (1,000,184)</u>	 <u>\$ 15,378,869</u>	 <u>\$ 925,706</u>

Total interest expense incurred on long-term debt for the year ended December 31, 2006 was \$588,317, of which none was capitalized.

6. PROPERTY TAX REVENUE

The District's total tax rate is .000705. The entire amount is used to meet operating and maintenance expenses. Property tax revenue for the year ended December 31, 2006 was \$3,625,191.

7. PENSION PLAN

District Plan – The District sponsors a non-contributory defined contribution retirement benefit plan covering substantially all of its employees. Employer contributions under this plan during 2006 was \$474,014, which represents 15.51% of covered payroll amounting to \$3,056,952. Employee contributions under this plan were \$56,868 for 2006.

Utah State Retirement System – The District contributes to the Local Government Noncontributory Retirement System (System). The System is a cost sharing multiple employer defined benefit pension plan administered by the Utah Retirement Systems. The Systems provide retirement benefits, annual cost of living allowances, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. PENSION PLAN (CONTINUED)

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 System, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1(800)365-8772.

The District was required to contribute 11.09%, January 2006 through June 2006, and 11.59%, July 2006 through December 2006 of covered salary to the Noncontributory System for 2006. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Noncontributory System for the years ending December 31, 2006, 2005 and 2004 respectively were \$346,641, \$347,476, and \$299,799. The contributions were equal to the required contributions for each year. Covered salaries for the years ending December 31, 2006, 2005 and 2004 respectively were, \$3,056,952, \$3,133,232, and \$2,891,704.

8. DEFERRED COMPENSATION PLAN

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No. 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" rather than as an "Agency Fund". Currently, all of the assets and income of the 457 Plan are held in trust by the Utah Retirement Systems for the exclusive benefit of the participants or their beneficiaries rather than as assets of the District. Employer paid contributions for the years ending December 31, 2006, 2005, and 2004 were \$31,863, \$32,725, and \$24,599, respectively.

9. CENTRAL VALLEY WATER RECLAMATION FACILITY

During 1981, the District entered into a joint venture with four other special districts and two cities. The joint venture was organized to construct and operate a regional sewage treatment facility, for the benefit of the seven members. The seven members and their related ownership interest, as of December 31, 2006 are as follows:

	<u>Original Facility</u>	<u>New Expansion</u>	<u>Enhancements</u>	<u>Digesters</u>	<u>Secondaries</u>
Granger-Hunter Improvement District	19.569%	7.3215%	18.1191%	8.042%	7.1225%
Salt Lake City Suburban Sanitary District #1	25.622	23.6177	24.7780	20.080	22.6557
Granger-Hunter Improvement District	21.124	25.4755	20.2376	25.050	24.9005
Kearns Improvement District	5.978	24.0002	11.2654	28.435	25.7112
Murray City	8.892	6.8421	8.0168	6.280	6.6882
South Salt Lake City	6.120	2.5074	5.0980	1.378	2.5857
Taylorville-Bennion Improvement District	<u>12.695</u>	<u>10.2356</u>	<u>12.4851</u>	<u>10.735</u>	<u>10.3362</u>
	<u>100.000%</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>100.000%</u>	<u>100.0000%</u>

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. CENTRAL VALLEY WATER RECLAMATION FACILITY (CONTINUED)

The joint venture is administered by a joint administration board. Each member appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges. The joint venture is responsible for adopting a budget and financing its operations, subject to the approval by each of the seven members.

The District accounts for its investment in Central Valley using the equity method of accounting. Summarized financial information of Central Valley as of December 31, 2006 and for the year then ended is as follows (in thousands):

	<u>2006</u>
Total assets	\$ 139,687
Total net assets	106,890
Revenue	10,366
Change in net assets	2,693
The District's interest in:	
Equity	23,657
Net loss	1,394

The District has recorded in prior years its previous proportionate share (21.124%) of the government grants received by Central Valley as an addition to the District's investments in Central Valley and to the District's contributions in aid of construction. All expenses (except depreciation) incurred by Central Valley are billed to its members. Accordingly, the District's equity in net losses of Central Valley annually approximates its share of Central Valley's depreciation expense. Audited statements are available at Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, UT 84119.

The District incurred the following costs from the joint venture for the year ended December 31, 2006:

Administration	\$ 328,920
Operations and maintenance	<u>2,012,211</u>
TOTAL	<u>\$ 2,341,131</u>
TOTAL EQUITY INVESTMENT IN CENTRAL VALLEY	<u>\$23,656,766</u>

10. COMMITMENTS AND CONTINGENCIES

An agreement has been made with Jordan Valley Water Conservancy District, which provides, in general, that the District will purchase a minimum of 16,500 acre feet of water in 2006 from the Conservancy District. The minimum amount increases gradually to 18,500 acre feet of water in 2013. During 2006, the District purchased approximately 16,960 acre feet of water, which cost \$5,944,992.

During the year, the District entered into contracts for construction of water facilities. As of December 31, 2006, there was approximately \$4,877,544 outstanding on the contracts.

GRANGER-HUNTER IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The District's 2005 series bonds require a net revenue of 125% of the current bond principal payments. The District met the net revenue requirements for the year ended December 31, 2006.

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; and natural disasters, for which the District is insured.

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2006 the District issued \$10,000,000 Sewer Revenue Bond, Series 2007 Variable Rate Bonds, maturing on March 1, 2027, interest at a variable rate adjusted weekly.

SUPPLEMENTAL SCHEDULES

GRANGER-HUNTER IMPROVEMENT DISTRICT
BUDGET TO ACTUAL COMPARISON (NON-GAAP BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Metered water sales	\$10,500,000	\$12,065,580	\$ 1,565,580
Sewer service charges	7,000,000	7,925,012	925,012
Interest income	450,000	876,159	426,159
Property taxes	3,775,100	3,625,191	(149,909)
Engineering	25,000	54,124	29,124
Impact fees	1,722,500	2,647,299	924,799
Connection and turn-on fees	110,000	181,295	71,295
Inspection	175,000	184,508	9,508
Sale of surplus equipment	-	5,205	5,205
Other income	<u>201,560</u>	<u>221,512</u>	<u>19,952</u>
	<u>23,959,160</u>	<u>27,785,885</u>	<u>3,826,725</u>
EXPENSES:			
Salaries and wages	3,370,621	3,269,465	101,156
Employee benefits	1,678,526	1,508,834	169,692
Materials and supplies	647,381	614,291	33,090
Postage and mailing	85,790	88,364	(2,574)
Water purchased	6,213,950	5,944,992	268,958
Computer system	32,435	31,020	1,415
Building maintenance	108,320	93,275	15,045
Water quality expense	63,000	26,483	36,517
Bank expenses	58,500	57,607	893
Gas and diesel	137,000	143,667	(6,667)
Insurance	288,100	209,815	78,285
Utilities	729,300	726,889	2,411
Telephone	61,140	61,433	(293)
Professional fees	183,000	171,046	11,954
Seminars and training	109,354	76,985	32,369
Interest expense	274,455	588,685	(314,230)
Central Valley expenses	2,762,377	2,390,809	371,568
Capital projects	6,107,170	6,528,324	(421,154)
Miscellaneous	<u>128,200</u>	<u>38,732</u>	<u>89,468</u>
	<u>23,038,619</u>	<u>22,570,716</u>	<u>467,903</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 920,541</u>	<u>\$ 5,215,169</u>	<u>\$ 4,294,628</u>

GRANGER-HUNTER IMPROVEMENT DISTRICT**SCHEDULE OF IMPACT FEES****FOR THE YEAR ENDED DECEMBER 31, 2006**

The District collects impact fees for use by the District. The following is a recap of the impact fees outstanding by year of collection:

<u>Year Collected</u>	<u>Water</u>	<u>Sewer</u>
2002	\$ -	\$ 47,275
2003	-	1,297,606
2004	-	1,285,365
2005	-	766,288
2006	<u>849,833</u>	<u>1,522,356</u>
TOTAL	<u>\$ 849,833</u>	<u>\$ 4,918,890</u>

The following capital projects are planned to use the impact fees shown above:

<u>Planned Capital Project</u>	<u>Projected Cost</u>	<u>Anticipated Start Date</u>	<u>Impact Fee Type</u>
Parkway Blvd. Sewer Line	\$ 2,030,000	Under Construction	Sewer
Andra Booster Pump Station	\$ 1,065,000	Under Construction	Water
3500 South Water Line	\$ 1,126,250	Spring 2008	Water
Accord Booster Pump Station	\$ 1,000,000	Fall 2007	Water
Ridgeland Booster Pump Station	\$ 750,000	Fall 2007	Water
4700 South Water Line	\$ 600,000	Fall 2007	Water
6800 West Water Line	\$ 187,500	Summer 2007	Water
7200 West Water Line	\$ 572,700	Spring 2009	Water



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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*

Board of Trustees
Granger-Hunter Improvement District

We have audited the financial statements of Granger-Hunter Improvement District as of and for the year ended December 31, 2006, and have issued our report thereon dated June 1, 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 Granger-Hunter Improvement 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 of control deficiencies, that adversely affects the entity'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 item described in the accompanying management letter to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results 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, we also consider the significant deficiency described in the accompanying management letter to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Granger-Hunter Improvement 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*.

This report is intended for the information of the Board of Trustees, management, and applicable regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pinnacle, Robbins, Posey & Richins

June 1, 2007



PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
Granger-Hunter Improvement District

We have audited the financial statements of Granger-Hunter Improvement District, for the year ended December 31, 2006 and have issued our report thereon dated June 1, 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, including:

Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation

Other Compliance Requirements
Special Districts
Impact Fees

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

The management of Granger-Hunter Improvement 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.

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

In our opinion, Granger-Hunter Improvement District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

This report is intended for the use of Granger-Hunter Improvement District's Management, Board of Directors, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

Pinnock, Robbins, Posey & Richins

June 1, 2007