

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANT'S AUDIT REPORT
JUNE 30, 2013

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2013

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Independent Auditor's Report

December 18, 2013

Board of Directors
Spring Creek Improvement & Service District
Jackson, Wyoming

Report on the Financial Statements

We have audited the accompanying financial statements of Spring Creek Improvement & Service District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Spring Creek Improvement & Service District as of June 30, 2013, the respective changes in net position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.



Thompson Palmer & Associates, PC
Certified Public Accountants

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT

Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 114,645
Taxes receivable	13,180
Capital assets (net of accumulated depreciation):	
Water system	1,858,888
Sewer system	703,168
Roads	1,282,650
Loan fees (net of accumulated amortization)	<u>3,650</u>
Total assets	3,976,181
Liabilities	
Current liabilities:	
Accounts payable	6,584
Accrued interest payable	16,419
Non-current liabilities:	
Due within one year	106,766
Due in more than one year	<u>1,575,211</u>
Total liabilities	1,704,980
Net Position	
Invested in capital assets, net of related debt	2,162,729
Unrestricted	<u>108,472</u>
Total net position	<u>\$ 2,271,201</u>

See accompanying notes and independent accountant's audit report.

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT

**Statement of Activities
For the Year Ended
June 30, 2013**

Program Expenses:

Water system:

Personal services	\$ 13,382
Materials and services	66,223
Depreciation and amortization	172,873
Interest	<u>35,918</u>
Total program expenses	288,396

Program Revenues:

Grants	<u>81,951</u>
Total program revenues	81,951
Net program revenue	<u>(206,445)</u>

General revenues:

Taxes	208,812
Investment earnings	<u>70</u>
Total general revenues and special items	208,882
Change in net position	<u>2,437</u>

Net position - beginning of the year	<u>2,268,764</u>
Net position - end of the year	<u>\$ 2,271,201</u>

See accompanying notes and independent accountant's audit report.

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT

Balance Sheet
Governmental Funds
June 30, 2013

Assets

Cash and cash equivalents	\$ 114,645
Taxes receivable	<u>13,180</u>
Total assets	<u>\$ 127,825</u>

Liabilities and Fund Balance

Liabilities	
Accounts payable	<u>6,583</u>
Total liabilities	6,583
Fund balance	
Unreserved	<u>121,242</u>
Total fund balance	121,242

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,848,356
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,698,397)</u>
Net position of governmental activities	<u>\$ 2,271,201</u>

See accompanying notes and independent accountant's audit report.

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended
June 30, 2013

Revenues	
Taxes	\$ 208,812
Investment earnings	70
Contributions and donations	<u>11,025</u>
Total revenues	219,907
Expenditures	
Current:	
General government	79,606
Capital outlay:	
Water pump/telemetry project	32,876
Water meter project	22,613
Road improvement project	<u>649,926</u>
Total expenditures	785,021
Deficiency of revenues over expenditures	<u>(565,114)</u>
Other financing sources (uses)	
Special assessment bonds issued	850,000
State grant	81,951
Loan proceeds	172,487
Loan payments, principal	(112,137)
Loan payments, interest	<u>(22,303)</u>
Total other financing sources and uses	969,998
Net change in fund balance	<u>404,884</u>
Fund balance – beginning	<u>(283,642)</u>
Fund balance – ending	<u>\$ 121,242</u>

See accompanying notes and independent accountant's audit report.

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT

Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances
of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balance—total governmental funds \$ 404,884

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

532,743

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(921,374)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(13,816)

Change in net position of governmental activities

\$ 2,437

See accompanying notes and independent accountant's audit report.

SPRING CREEK IMPROVEMENT & SERVICE DISTRICT

Notes to Financial Statements

I. Summary of significant accounting policies

A. Reporting entity

The Spring Creek Improvement & Service District is governed by an elected three member board. The District's purpose is to acquire, construct, operate and maintain improvements of local necessity and convenience for the Spring Creek Ranch area of Teton County, Wyoming.

The criteria used to determine the reporting entity are consistent with Section 2100 "Defining the Reporting Entity" of the Codification of Governmental Accounting and Financial Reporting Standards published by Governmental Accounting Standards Board (GASB).

The accounting policies of the Spring Creek Improvement & Service District conform to generally accepted accounting principles as applicable to governments.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the District.

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

The fund financial statements provide information about the District's funds.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues

are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest income associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. Governmental grants are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when cash is received by the District.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise general revenues include all taxes.

D. Assets, liabilities, and net position or equity

1. Deposits and investments

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.

2. Receivables

All receivables are considered collectible. The District uses the direct write-off method and therefore, only recognizes bad debt expense when an account is considered uncollectible.

3. Inventories and prepaid items

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

4. Capital assets

Capital assets, which include property, vehicles, equipment, and furnishings, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, vehicles and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Roads	20-30
Water system	30-50
Sewer system	15-40

5. Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, if material, are deferred and amortized over the life of the bonds using the straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund equity and net position

In the fund financial statements, governmental funds may report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. At the current year end there were no reservations of fund balances.

Net position in government wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments.

7. Accounting estimates

The preparation of financial statements require management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual amounts may differ from estimates.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$1,698,397 difference are as follows:

Loan payable	\$ 116,320
Loan payable	665,658
Bond payable	900,000
Accrued interest payable	16,419
	<hr/>
Net adjustment to decrease <i>fund balance - total governmental funds</i> to arrive at <i>net position-governmental activities</i>	<u>\$(1,698,397)</u>

Another element of the reconciliation explains "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this \$3,848,356 difference are as follows:

Prior year general fixed assets	\$ 6,455,104
Add: Current year additions to fixed assets	705,415
Less: Accumulated depreciation and amortization	(3,312,163)
	<hr/>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position governmental activities</i>	<u>\$ 3,848,356</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this \$532,743 difference are as follows:

Capital outlay	\$ 705,415
Depreciation expense	(172,672)
	<hr/>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 532,743</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$921,374 difference are as follows:

Debt issued or incurred:	
Loans payable	\$ 183,511
Bond payable	850,000
Principal repayments:	
Loan payable	(30,186)
Loan forgiveness	(81,951)
	<hr/>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$(921,374)</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds". The details of this \$13,816 difference are as follows:

Accrued interest payable – prior year	\$ 2,804
Accrued interest payable – current year	(16,419)
Amortization of issuance costs	(201)
	<hr/>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$(13,816)</u>

III. Stewardship, compliance, and accountability

A. Budgets and budgetary accounting

The District follows these procedures in establishing the budget:

The District Board prepares a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

The budget is approved at the annual meeting, or a special meeting, of the District.

The budget will be adopted as the budget for the District upon the affirmative vote of a majority of the Directors, unless a majority of the property owners in the District object to the adoption of the budget in writing on or before the date Directors resolve to adopt the budget.

A budget is only required when there is substantial financial activity by the District.

IV. Detailed notes on all funds

A. Deposits and investments

Cash and investments are carried at fair value in accordance with GASB Statement No. 31. They consist of cash in banks and cash on hand of \$114,645.

Wyoming State Statutes allow the District to invest in U.S. and state and local government securities and accounts of any bank and savings associations which are federally insured. Stocks and bonds of private corporations as well as repurchase and reverse repurchase agreements are a prohibited investment means for the District. At year end the carrying amount and bank balances of the District's depository balances and their collateralized status were as follows:

	<u>Bank Balances</u>	<u>Carrying Amount</u>
Insured or collateralized by securities held by the District or its agent in the District's name	\$ 117,145	\$ 114,645
Uninsured or uncollateralized	-	-
Total	<u>\$ 117,145</u>	<u>\$ 114,645</u>

B. Receivables

Receivables as of year end for the District are as follows:

Receivables:	
Taxes	\$ <u>13,180</u>
Total	\$ <u>13,180</u>

C. Capital assets

The District has implemented GASB 34, which requires all capital assets of the District, including infrastructure, to be reported on the government wide financial statements and depreciated.

Capital asset activity for the year ended was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, depreciated:				
Roads	\$ 1,356,815	\$ 924,199	\$ -	\$ 2,281,014
Water system	2,830,389	371,997	-	3,202,386
Sewer system	1,673,119	32,876	-	1,673,119
Construction in progress	<u>590,780</u>	<u>-</u>	<u>(590,780)</u>	<u>-</u>
Total capital assets, depreciated	6,451,103	1,296,196	(590,780)	7,156,519
Less accumulated depreciation for:				
Road improvements	938,394	59,970	-	998,364
Water system	1,271,481	72,017	-	1,343,498
Sewer system	<u>929,266</u>	<u>40,685</u>	<u>-</u>	<u>969,951</u>
Total accumulated depreciation	<u>3,139,141</u>	<u>172,672</u>	<u>-</u>	<u>3,311,813</u>
Total capital assets, depreciated, net	<u>3,311,962</u>	<u>1,123,524</u>	<u>(590,780)</u>	<u>3,844,706</u>
Governmental activities capital assets, net	<u>\$ 3,311,962</u>	<u>\$ 1,123,524</u>	<u>\$(590,780)</u>	<u>\$ 3,844,706</u>

Depreciation expense of \$172,672 was charged to functions/programs of the District.

D. Long-term debt

Loans payable

Wyoming State Land & Investment Board

On July 1, 2011 the District signed a promissory note, in the amount of \$450,000, with the Wyoming State Loan & Investment Board, for the purpose of funding the District's water system improvement project. Upon completion of the project, the loan was amended because not all funds were drawn and payments made resulting in the face of the note being \$432,097.77. The loan is secured by the District with the pledge and assignment of revenues from the District's property tax assessments. This assignment will be in effect for the term of the loan. The loan is payable in 20 annual installments of \$28,847 including interest at 2.5%. The balance at year-end is \$432,098.

On January 23, 2012, the District signed a promissory note, in the amount of \$350,000, with the Wyoming State Loan & Investment Board, for the purpose of funding the District's water meter project. Upon completion of the project, the District relinquished \$22,195 in unused funds and the Wyoming State Land & Investment Board forgave \$81,951 of the loan principal resulting in an amended promissory note for \$245,853 payable in 20 annual installments of \$12,293 including interest at 0%. The loan is secured by the District with the pledge and assignment of revenues from the District's property tax assessments. This assignment will be in effect for the term of the loan. The balance at year-end is \$233,560.

Spring Creek Homeowner's Association

The Homeowner's Association advanced \$116,319 to the District during the recent construction projects. The operating agreement between the HOA and the District provide for such advances with repayment to be made as requested by the HOA based upon available resources in the ISD. This loan is considered long-term because it is not expected to be paid from current resources. The current balance is \$116,319.

Bond payable

On May 30, 2012, the District issued a general obligation bond with a face amount of \$900,000. The bond bears interest at 3.55% per year. The bond is payable in semi-annual installments until paid in full on January 15, 2023.

Annual debt service requirements to maturity are as follows:

Year ending June 30 th	Governmental Activities	
	Principal	Interest
2014	106,766	42,317
2015	109,955	38,892
2016	113,252	35,594
2017	116,663	32,183
2018	120,191	28,655
2019-2023	658,261	85,969
2024-2028	182,877	22,821
2029-Forward	274,012	6,866
Total	<u>\$ 1,681,977</u>	<u>\$ 293,297</u>

Changes in long-term liabilities

Long-term liability activity for the year ended was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Loan payable	\$ 605,309	\$ 172,486	\$(112,137)	\$ 665,658	\$ 30,337
Bond payable	50,000	850,000	-	900,000	76,429
Related party payable	<u>105,295</u>	<u>11,024</u>	<u>-</u>	<u>116,319</u>	<u>-</u>
Total	<u>\$ 760,604</u>	<u>\$ 1,033,510</u>	<u>\$(112,137)</u>	<u>\$ 1,681,977</u>	<u>\$ 106,766</u>

E. Related party transactions

The boundaries of the District are almost identical to the boundaries of the Spring Creek Ranch Development; therefore, the Homeowner's Association and the District have the common goal to appropriately maintain the infrastructure within the boundaries. In March 2011, the District and the Homeowner's Association entered into an agreement to provide services within their boundaries. As part of the agreement, the Homeowner's Association may pay for improvements or advance funds to the District to perform improvements. If such amounts are paid by the Homeowner's Association, they may request reimbursement from the District. As of year-end, the Homeowner's Association has advanced \$116,319, which is recorded as a liability of the District.

F. Subsequent events

The District and the Spring Creek Homeowner's Association (HOA) jointly filed a lawsuit against Jackson Land and Cattle, LLC (JL&C) on November 2, 2012. The primary purpose of the lawsuit was to secure permanent and unrestricted easement access to one of the District/HOA water wells. The well has been in its present location on the valley floor for thirty years, and is on property which has been owned by JL&C since 2005. At the time the lawsuit was filed, the District and the HOA were required to get prior approval from JL&C to service the well even in the event of an emergency. The lawsuit was intended to quiet title to the District/HOA's access rights to the well. After attempts to obtain a resolution were unsuccessful, the Board of Directors of both the District and the HOA felt that the current situation could not continue indefinitely, that the matter needed an appropriate resolution, and that the civil action was the only means of getting a permanent resolution. On October 15, 2013, the lawsuit was settled with the District and HOA securing permanent and unrestricted easement access to its existing wells and an easement to a future well site.

V. Other information

A. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Thompson, Palmer & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS

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December 18, 2013

**Independent Auditor's 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 Directors
Spring Creek Improvement & Service District
Jackson, Wyoming

We have audited, 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, the financial statements of Spring Creek Improvement & Service District as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Spring Creek Improvement & Service District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spring Creek Improvement & Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spring Creek Improvement & Service District's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

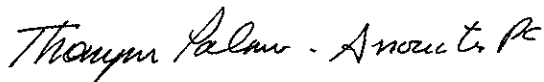
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Thompson, Palmer & Associates, PC
Certified Public Accountants