CITY OF EAST CARBON

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

CITY OF EAST CARBON
BASIC FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of East Carbon
East Carbon, Utah 84520

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the City of East Carbon, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of East Carbon's. 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 Governmental 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, and each major fund information of the City of East Carbon as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2007, on our consideration of the City of East Carbon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That 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 and analysis and budgetary comparison information on pages 3 through 10 and 47 through 49 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

Smuin, Rich & Marsing

Price, Utah

January 23, 2007

CITY OF EAST CARBON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

Our discussion and analysis of the City of East Carbon financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The City's net assets increased $593,119 as a result of this year's operations. Net assets of our governmental activities decreased by $2,570, which is a .26 percent decrease over last year and our net assets of our business-type activities increased by $595,689, which is a 23.9 percent increase over last year.
- Total expenses of $839,411 were $666,709 more than the direct revenues received of $172,702 for governmental activities.
- In the City's business-type activities, revenues of $1,126,755 were $308,140 more than the expenses of $818,615 for these types of activities.
- Property Tax revenue for the year ended June 30, 2006 was $282,849, Sales and Franchise Tax was $143,058. Property Tax revenue decrease by $479, while Sales and Franchise Tax increased by $7,120 from the previous fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports: Statement of Net Assets and the Statement of Activities (on pages 11-12) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

REPORTING THE CITY AS A WHOLE

Our analysis of the City as a whole begins on page 11. The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps determine if the City is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting,* which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the City's financial position. Increases or decreases in the City's net assets are one indicator of whether the financial position of the City is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, water lines, sewer lines, drainage systems, and other capital assets to assess the overall health of the City.

REPORTING THE CITY AS A WHOLE (Continued)

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities - Most of the City's basic services are reported here, including the general and administration cost, contributions to other agencies, police, fire, public works, parks department and interest on long-term debt. Property taxes, franchise fees, fines, sales taxes and state and federal grants finance most of these activities.

Business-type activities - The City charges a fee to customers to help cover all or most of the cost of services it provides. The City's water, sewer, and garbage services are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City established other funds to help it control and manage money for particular purposes (special revenue and capital projects payments) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements or on a separate statement.

Proprietary funds – When the City charges customers for the services it provides – to outside customers – these services are generally reported in proprietary funds. Proprietary funds are reported the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

The City has not acted in a trustee capacity for the year ended June 30, 2006.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. The City's Statement of Net Assets, which increased during the current calendar year, presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. The government-wide financial statements include the City's activity and those of component units. The analysis shown below, focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1

Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 1,205,964	$ 1,253,962	$ 1,541,472	$ 1,437,841	$ 2,747,436	$ 2,691,803
Capital assets	1,918,816	2,047,561	8,209,434	7,376,330	10,128,250	9,423,891
Total assets	$ 3,124,780	$ 3,301,523	$ 9,750,906	$ 8,814,171	$ 12,875,686	$ 12,115,694
Long-term liabilities	$ 1,477,427	$ 1,609,326	$ 6,310,983	$ 5,953,743	$ 7,788,410	$ 7,563,069
Other liabilities	725,060	738,573	360,662	376,856	1,085,722	1,115,429
Total liabilities	$ 2,202,487	$ 2,347,899	$ 6,671,645	$ 6,330,599	$ 8,874,132	$ 8,678,498
Net assets:						
Invested in capital assets, net of debt	$ 309,490	$ 296,024	$ 1,755,690	$ 1,277,934	$ 2,065,180	$ 1,573,958
Restricted for:						
Class "C" road	63,159	46,319			63,159	46,319
Debt Service	371,777	685,120	1,169,266	840,763	1,541,043	1,525,883
Capital Projects		201,510				201,510
Unrestricted	177,867	(275,349)	154,305	364,875	332,172	89,526
Total net assets	$ 922,293	$ 953,624	$ 3,079,261	$ 2,483,572	$ 4,001,554	$ 3,437,196

Net Assets of the City's governmental activities decreased by .269 percent ($951,054 compared to $953,624). *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—is $177,867 at the end of June 30, 2006.

Government-wide financial statements (Continued)

Net Assets of our business-type activities increased 23.9 percent ($3,079,261 compared to $2,483,572). Unrestricted net assets for this group, amount to ($154,305). If the City had unrestricted net assets they would be used to finance the continuing operations of the water and sewer systems and for garbage collection services.

Table 2

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for services	$ 111,936	$ 132,021	$ 361,946	$ 289,486	$ 473,882	$ 421,507
Operating grants and cont.	60,766	60,315		27,631	60,766	87,946
Capital grants and cont.		235,997	709,520	168,000	709,520	403,997
General Revenues:						
Property taxes	282,849	283,328			282,849	283,328
Sales and franchise taxes	143,058	135,938			143,058	135,938
Other general revenue	525,781	803,174	55,289	12,235	581,070	815,409
Total revenues	$ 1,124,390	$ 1,650,773	$ 1,126,755	$ 497,352	$ 2,251,145	$ 2,148,125
Program Expenses						
General government	$ 260,107	$ 241,191			$ 260,107	$ 241,191
Public safety	306,636	309,424			306,636	309,424
Highways and public improv.	170,732	173,942			170,732	173,942
Parks and recreation	29,259	30,949			29,259	30,949
Intergovernmental	1,126				1,126	
Community & public imp.		475				475
Interest on long-term debt	71,551	90,568			71,551	90,568
Water			$ 574,638	$ 581,115	574,638	581,115
Sewer			188,582	224,862	188,582	224,862
Garbage			55,395	51,034	55,395	51,034
Total expenses	$ 839,411	$ 846,549	$ 818,615	$ 857,011	$ 1,658,026	$ 1,703,560
Excess (deficiency) before transfers and special items	$ 284,979	$ 804,224	$ 308,140	$ (359,659)	$ 593,119	$ 444,565

Government-wide financial statements (Continued)

Table 2
(Continued)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Excess (deficiency) before transfers and special items	$ 284,979	$ 804,224	$ 308,140	$ (359,659)	$ 593,119	$ 444,565
Transfers in (out)	(287,549)	(263,481)	287,549	263,481		
Change in net assets	$ (2,570)	$ 540,743	$ 595,689	$ (96,178)	$ 593,119	$ 444,565
Net Assets - beginning	$ 953,624	$ 412,881	$ 2,483,572	$ 2,579,750	$ 3,437,196	$ 2,992,631
Prior period adjustment	(28,761)				(28,761)	
Net Assets - ending	922,293	953,624	3,079,261	2,483,572	4,001,554	3,437,196
Change in net assets	$ (2,570)	$ 540,743	$ 595,689	$ (96,178)	$ 593,119	$ 444,565

The City's operational goals for future years is to continue to strive to use the allotted funds in the best interest of the City and those who are served by the City's operations. As revenues increase, the funds will be used to make necessary improvements in government operations, road and recreation improvements, utility improvements and purchase of supplies and equipment that are appropriate and beneficial.

Governmental Activities

Revenues for the City's governmental type activities, decreased $548,837, a 33.25 percent decrease. Total expenses using these funds decreased $7,138, a decrease of .84 percent. The largest decrease in revenue was in tippage fees received from ECDC as compared with the prior years. The largest decrease in expenditures occurred in interest on long term-debt. The largest sources of funds are property, sales and franchise taxes and tippage fees from ECDC. These revenues are largely used to retire debt and enabled the City the opportunity to purchase a variety of vehicles and equipment as well as other improvements. An overall decrease in the revenues of approximately 33.25 percent compared to a decrease of approximately .84 percent in expenditures has caused a decrease in net assets for governmental activities of $2,570 in the 2006 fiscal year.

The cost of all governmental activities this year was $839,411. As shown in the Statement of Activities on page 12, sales and franchise tax revenue, government grants and property taxes paid for the majority of these activities.

Governmental Activities (Continued)

Class "C" road revenue of $59,874 helped pay 44.74 percent of the Highway and public improvements costs. Overall, the City's governmental program revenues of $172,702 paid 20.50 percent of the governmental activities expenditures.

Costs of the City are centered within several programs—General government, Public safety, Highways and public improvements, Parks and recreation, Intergovernmental, Capital outlay, and interest on long-term debt. The net cost of expenditures (over) specific program revenues shows the financial burden that utilizes the Property taxes, Sales and franchise taxes and government grants.

Business-type Activities

Program revenues of the City's business-type activities increased 220 percent ($1,071,466 compared to $485,117) while expenses decreased 4.48 percent ($857,011 compared to $818,615). The major changes for the business-type activities, is a increase in grant proceeds in comparison to the prior year. The fund operating revenues in the proprietary funds increased $72,460, an increase of 25.00 percent over last year. This increase is primarily due to the additional water, sewer and garbage revenue the City received.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised their budget once. The original budget was adopted on June 14, 2005 and was adjusted on June 21, 2006. The general fund budget was amended but the only change was from department to department within the general fund. The original budget was $673,900 and remained at that level. The differences in the original budget and final amended budget are summarized as follows: 1) a decrease in revenue from property taxes ($13,500), a decrease in revenue from franchise taxes ($15,500), an increase in revenues from licenses & permits ($24,900), and increase in revenue from intergovernmental of ($4,100).

The actual charges for expenditures were $654,341. This was $19,559 below the final budgeted amounts. The most significant positive variance ($26,092) occurred in highway and public improvements.

Resources for revenues were $658,373. This was $4,473 above the final budgeted amount. The most significant positive variance ($26,583) occurred in general sales and use taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2006, the City had $10,128,251 invested in a broad range of capital assets, including water stock, land, buildings, improvements other than buildings, machinery and equipment, and infrastructure (see Table 3 below). This amount represents a net increase (including additions and deletions) of $704,360, or a 7.47 percent increase over the previous year.

Table 3
Capital Assets at Year-End
(Net of Depreciation)
June 30, 2006

	Governmental Activities		Business-type Activities		Totals Primary Government	
	2006	2005	2006	2005	2006	2005
Water stock			$ 431,234	$ 431,234	$ 431,234	$ 431,234
Land	$ 95,815	$ 95,815	7,976	7,976	103,791	103,791
Buildings	222,615	236,293	1,243	1,376	223,858	237,669
Improvements other than buildings			6,593,006	6,927,139	6,593,006	6,927,139
Machinery and equipment	246,712	292,655	5,931	8,605	252,643	301,260
Infrastructure	1,353,674	1,422,798			1,353,674	1,422,798
Work in progress			1,170,045		1,170,045	
Total capital assets	$ 1,918,816	$ 2,047,561	$ 8,209,435	$ 7,376,330	$ 10,128,251	$ 9,423,891

This year's major additions included:

Sewer Lagoon improvements Paid for with grant and loan proceeds from the CIB	$ 1,170,045
	$ 1,170,045

The City's fiscal year 2006 capital budget calls for spending on capital projects, principally for the completion of the sewer lagoons.

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-term debt

As of June 30, 2006, the City had $8,063,070 in bonds and capital lease payable outstanding. The debt represents revenue bonds secured solely by specified revenue sources. The following table (table 4) shows outstanding debt for the current and previous years.

Table 4
Outstanding Debt as of
June 30, 2006

	Governmental Activities		Business-type Activities		Totals Primary Government	
	2006	2005	2006	2005	2006	2005
Capital lease payable	$ 30,326	$ 42,537			$ 30,326	$ 42,537
Revenue bonds payable	1,579,000	1,989,000	$ 6,453,744	$ 6,098,396	8,032,744	8,087,396
	$ 1,609,326	$ 2,031,537	$ 6,453,744	$ 6,098,396	$ 8,063,070	$ 8,129,933

There was one issue of new debt issued during this fiscal year. The City issued $500,000 in Sewer Revenue Bonds, Series 2005, to make improvements on the Sewer Lagoons located southwest of the City. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FORECAST AND FUTURE BUDGET

The Mayor and Council of East Carbon City consider many factors in preparing their annual budgets. The City's revenues increased last year, due to receiving a substantial grant from the CIB Board. This grant was a one time event. Tippage fees, which have been the revenue source to retire both governmental and enterprise debt has steadily been decreasing. This has caused a funding shortage necessary to retire bonds and has caused the City to seek ways to change their current debt structure. The rising cost of health benefits for the City's employees are a continued burden on the City. The Mayor and City Council are committed to maintaining the existing level of benefits for the City's employees.

The City is experiencing very slow or negative economic and residential development activity and there are no proposed developments being considered at this time. The General Fund budget is projected to be $948,872, for the fiscal year ending June 30,2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our community with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Recorder, Liz Marquez at 101 West Geneva Drive, East Carbon, Utah 84520.

CITY OF EAST CARBON
STATEMENT OF NET ASSETS
JUNE 30, 2006

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 140,580	$ 320,175	$ 460,755
Investments - restricted	429,361	1,169,266	1,598,627
Taxes receivable	591,963		591,963
Accounts receivable (net)		50,120	50,120
Miscellaneous receivable	35,769		35,769
Prepaid expenses	8,291	1,911	10,202
Capital assets (net of accumulated depreciation):			
Water stock		431,234	431,234
Land	95,815	7,976	103,791
Buildings	222,615	1,243	223,858
Improvements other than buildings		6,593,006	6,593,006
Equipment	246,712	5,931	252,643
Infrastructure	1,353,674		1,353,674
Work in progress		1,170,044	1,170,044
Total assets	$ 3,124,780	$ 9,750,906	$ 12,875,686
LIABILITIES			
Accounts payable	$ 261,475		$ 261,475
Accrued liabilities	7,042		7,042
Bond interest payable	55,719	$ 182,788	238,507
Deferred revenue	253,022		253,022
Noncurrent liabilities:			
Customer deposits payable		33,741	33,741
Revenue bonds payable - Due within one year	135,000	177,874	312,874
Capital leases payable - Due within one year	12,802		12,802
Revenue bonds payable - Due in more than one year	1,444,000	6,275,870	7,719,870
Capital lease payable - Due in more than one year	17,524		17,524
Compensated absences	15,903	1,372	17,275
Total liabilities	$ 2,202,487	$ 6,671,645	$ 8,874,132
NET ASSETS			
Invested in capital assets, net of related debt	$ 309,490	$ 1,755,690	$ 2,065,180
Restricted for:			
Class "C" Roads	63,159		63,159
Debt service	371,777	1,169,266	1,541,043
Unrestricted	177,867	154,305	332,172
Total net assets	$ 922,293	$ 3,079,261	$ 4,001,554

"The notes to the financial statements are an integral part of this statement."

EXHIBIT 2

CITY OF EAST CARBON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
					PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
FUNCTION/PROGRAMS							
Primary government:							
Governmental activities:							
General government	$ 260,107	$ 3,121			$ (256,986)		$ (256,986)
Public safety	306,636	108,815	$ 892		(196,929)		(196,929)
Highways and public improvements	170,732		59,874		(110,858)		(110,858)
Parks and recreation	29,259				(29,259)		(29,259)
Intergovernmental	1,126				(1,126)		(1,126)
Interest on long-term debt	71,551				(71,551)		(71,551)
Total governmental activities	$ 839,411	$ 111,936	$ 60,766	$ ...	$ (666,709)		$ (666,709)
Business-type activities:							
Water Fund	$ 574,638	$ 216,827				$ (357,811)	$ (357,811)
Sewer Fund	188,582	79,306		$ 709,520		600,244	600,244
Garbage Fund	55,395	65,813				10,418	10,418
Total business-type activities	$ 818,615	$ 361,946	$ ...	$ 709,520	$ ...	$ 252,851	$ 252,851
Total primary government	$ 1,658,026	$ 473,882	$ 60,766	$ 709,520	$ (666,709)	$ 252,851	$ (413,858)
General revenues:							
Property taxes					$ 282,849		$ 282,849
Sales and franchise taxes					143,058		143,058
Grants and contributions not restricted to specific programs					499,262		499,262
Unrestricted investment earnings					24,948	$ 55,289	80,237
Gain on sale of capital assets					775		775
Miscellaneous					796		796
Transfers in (out)					(287,549)	287,549	
Total general revenues and transfers					$ 664,139	$ 342,838	$ 1,006,977
Change in net assets					$ (2,570)	$ 595,689	$ 593,119
Net assets - beginning					953,624	2,483,572	3,437,196
Prior period adjustment					(28,761)		(28,761)
Net assets - ending					$ 922,293	$ 3,079,261	$ 4,001,554

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECT FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents		$ 106,279	$ 201,163		$ 307,442
Investments restricted		38,465		$ 390,896	429,361
Receivables (net):					
Taxes	$ 591,963				591,963
Miscellaneous		35,769			35,769
Due from other funds	172,357				172,357
Prepaid expenses	8,291				8,291
Total assets	$ 772,611	$ 180,513	$ 201,163	$ 390,896	$ 1,545,183
LIABILITIES AND FUND BALANCES					
Liabilities:					
Cash deficit	$ 147,743			$ 19,119	$ 166,862
Accounts payable	261,475				261,475
Accrued liabilities	7,042				7,042
Due from other funds		$ 172,357			172,357
Deferred revenue	253,022				253,022
Total liabilities	$ 669,282	$ 172,357	$ ...	$ 19,119	$ 860,758
Fund balances:					
Reserved for:					
Class "C" Roads	$ 63,159				$ 63,159
Debt Service				$ 371,777	371,777
Unreserved, reported in:					
General fund	40,170				40,170
Capital project funds			$ 201,163		201,163
Debt Service fund		$ 8,156			8,156
Total fund balances	$ 103,329	$ 8,156	$ 201,163	$ 371,777	$ 684,425
Total liabilities and fund balances	$ 772,611	$ 180,513	$ 201,163	$ 390,896	$ 1,545,183

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental fund types:			$ 684,425
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
	Land	$ 95,815	
	Buildings	222,615	
	Equipment	246,712	
	Infrastructure	1,353,674	1,918,816
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
	Bond interest payable	$ (55,719)	
	Capital lease payable - current portion	(12,802)	
	Capital lease payable - due in more than one year	(17,524)	
	Revenue bonds payable - current portion	(135,000)	
	Revenue bonds payable - due in more than one year	(1,444,000)	
	Compensated absenses	(15,903)	(1,680,948)
Net assets of governmental activities			$ 922,293

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECT FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	$ 425,907				$ 425,907
Licenses and permits	8,057				8,057
Intergovernmental	60,766				60,766
Charges for services	71,387	$ 456,065			527,452
Fines and forfeitures	31,600				31,600
Contributions	7,624				7,624
Miscellaneous revenue	53,032			$ 9,952	62,984
Total revenues	$ 658,373	$ 456,065	$ ...	$ 9,952	$ 1,124,390
EXPENDITURES:					
Current:					
General government	$ 249,179		$ 347		$ 249,526
Public safety	269,113				269,113
Highways and public improvements	96,168				96,168
Parks, recreation, and public property	24,552				24,552
Intergovernmental expenditures	1,126				1,126
Debt service:					
Principal retirement	12,211			$ 410,000	422,211
Interest and fiscal charges	1,992			73,655	75,647
Total expenditures	$ 654,341	$ ...	$ 347	$ 483,655	$ 1,138,343
Excess revenues over (under) expenditures	$ 4,032	$ 456,065	$ (347)	$ (473,703)	$ (13,953)
OTHER FINANCING SOURCES (USES):					
Transfers in				$ 168,516	$ 168,516
Transfers out		$ (456,065)			(456,065)
Total other financing sources (uses)	$ ...	$ (456,065)	$ ...	$ 168,516	$ (287,549)
Excess of revenues and other sources over (under) expenditures and other uses	$ 4,032		$ (347)	$ (305,187)	$ (301,502)
FUND BALANCES - beginning of year	64,407	$ 8,156	201,510	676,964	951,037
Prior period adjustment	34,890				34,890
FUND BALANCES - end of year	$ 103,329	$ 8,156	$ 201,163	$ 371,777	$ 684,425

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
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, 2006

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances - total governmental funds	$	(301,502)
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 depreciation exceeded capital outlay in the current period.		(128,745)
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 assets. 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.		422,211
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. (compensated absences)		5,466
Change in net assets of governmental activities	$	(2,570)

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL BTA'S
ASSETS				
Current assets:				
Cash and cash equivalents	$ 143,491	$ 90,074	$ 86,610	$ 320,175
Investments - restricted	589,307	579,959		1,169,266
Receivables - net				
Accounts	26,470	14,778	8,872	50,120
Prepaid expense	652	1,259		1,911
Total current assets	$ 759,920	$ 686,070	$ 95,482	$ 1,541,472
Noncurrent assets:				
Water stock	$ 431,234			$ 431,234
Land	7,976			7,976
Buildings	29,027			29,027
Improvements other than buildings	8,522,691	$ 2,103,180		10,625,871
Machinery and equipment	92,677	3,525	$ 6,876	103,078
Work in progress		1,170,044		1,170,044
Less: Accumulated depreciation	(3,473,964)	(679,547)	(4,285)	(4,157,796)
Total noncurrent assets	$ 5,609,641	$ 2,597,202	$ 2,591	$ 8,209,434
Total assets	$ 6,369,561	$ 3,283,272	$ 98,073	$ 9,750,906
LIABILITIES				
Current liabilities:				
Accrued interest payable	$ 126,623	$ 56,165		$ 182,788
Current portion - long-term debt	101,437	76,437		177,874
Total current liabilities	$ 228,060	$ 132,602	$ ...	$ 360,662

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL BTA'S
Noncurrent liabilities:				
Compensated absences	$ 1,372			$ 1,372
Customer deposits payable	33,741			33,741
Revenue bonds payable	4,005,078	$ 2,270,792		6,275,870
Total noncurrent liabilities	$ 4,040,191	$ 2,270,792	$ ...	$ 6,310,983
Total liabilities	$ 4,268,251	$ 2,403,394	$ ...	$ 6,671,645
Net Assets:				
Invested in capital assets, net of related debt	$ 1,503,126	$ 249,973	$ 2,591	$ 1,755,690
Restricted	589,307	579,959		1,169,266
Unrestricted	8,877	49,946	95,482	154,305
Total net assets	$ 2,101,310	$ 879,878	$ 98,073	$ 3,079,261

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISES FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL BTA'S
Operating revenues:				
Charges for sales and services	$ 216,827	$ 79,306	$ 65,813	$ 361,946
Total operating revenues	$ 216,827	$ 79,306	$ 65,813	$ 361,946
Operating expenses:				
Employee salaries	$ 42,879	$ 11,536	$ 22	$ 54,437
Employee benefits	19,423	4,741		24,164
Contractual services			54,813	54,813
Supplies	5,477			5,477
Utilities	4,381	119		4,500
Repairs and maintenance	22,629	559		23,188
Depreciation	261,266	75,114	560	336,940
Bad debts	15,613			15,613
Office supplies	6,552			6,552
Miscellaneous	1,071			1,071
Insurance	9,000	5,255		14,255
Total operating expenses	$ 388,291	$ 97,324	$ 55,395	$ 541,010
Operating income (loss)	$ (171,464)	$ (18,018)	$ 10,418	$ (179,064)
Nonoperating revenues (expenses):				
Interest revenue	$ 18,547	$ 36,742		$ 55,289
Interest expense and fiscal charges	(186,347)	(91,258)		(277,605)
Grants revenue		709,520		709,520
Total nonoperating revenues (expenses)	$ (167,800)	$ 655,004	$ ...	$ 487,204
Income (loss) before transfers	$ (339,264)	$ 636,986	$ 10,418	$ 308,140

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISES FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL BTA'S
Income (loss) before transfers	$ (339,264)	$ 636,986	$ 10,418	$ 308,140
Transfers In (Out):				
Transfers in (out)	$ 166,737	$ 120,812		$ 287,549
Total transfers in (out):	$ 166,737	$ 120,812	$ ...	$ 287,549
Change in net assets	$ (172,527)	$ 757,798	$ 10,418	$ 595,689
Total net assets - beginning	2,273,837	122,080	87,655	2,483,572
Total net assets - ending	$ 2,101,310	$ 879,878	$ 98,073	$ 3,079,261

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF CASH FLOWS
PROPERETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL
Cash Flows From Operating Activities:				
Cash receipts from customers	$ 224,790	$ 67,758	$ 59,507	$ 352,055
Cash payments to suppliers	(62,463)	(6,857)	(54,835)	(124,155)
Cash payments to employees	(71,281)	(16,277)		(87,558)
Net cash provided (used) by operating activities	$ 91,046	$ 44,624	$ 4,672	$ 140,342
Cash Flows From Noncapital Financing Activities:				
Transfers in from other funds	$ 282,791	$ 120,812		$ 403,603
Net cash provided (used) by noncapital financing activities	$ 282,791	$ 120,812	$ ...	$ 403,603
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets		$ (1,170,044)		$ (1,170,044)
Interest paid on revenue bonds	$ (190,860)	(94,118)		(284,978)
Principal paid on revenue bonds	(125,847)	(42,805)		(168,652)
Grants received		709,520		709,520
Issue of revenue bonds		524,000		524,000
Net cash provided (used) by capital and related financing activities	$ (316,707)	$ (73,447)	$ ...	$ (390,154)
Cash Flows From Investing Activities:				
Interest and dividends received	$ 18,547	$ 36,742		$ 55,289
Net cash provided (used) by investing activities	$ 18,547	$ 36,742	$ ...	$ 55,289
Net increase (decrease) in cash and cash equivalents	$ 75,677	$ 128,731	$ 4,672	$ 209,080
Cash and cash equivalents, July 1	657,121	541,302	81,938	1,280,361
Cash and cash equivalents, June 30	$ 732,798	$ 670,033	$ 86,610	$ 1,489,441

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
STATEMENT OF CASH FLOWS
PROPERETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ (171,464)	$ (18,018)	$ 10,418	$ (179,064)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	$ 261,266	$ 75,114	$ 560	$ 336,940
(Increase) Decrease in utility receivables	7,963	(11,548)	(6,306)	(9,891)
(Increase) Decrease in prepaids	210	(924)		(714)
Increase (Decrease) in compensated absences	(8,979)			(8,979)
Increase (Decrease) in customer deposits payable	2,050			2,050
Total adjustments	$ 262,510	$ 62,642	$ (5,746)	$ 319,406
Net cash provided (used) by operating activities	$ 91,046	$ 44,624	$ 4,672	$ 140,342

"The notes to the financial statements are an integral part of this statement."

CITY OF EAST CARBON
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of East Carbon (the City) is a municipal corporation governed by an elected mayor and five-member council. The City, incorporated July 27, 1973, provides the following services: public safety, highways and public improvements, parks and recreation, economic development, and general administrative services. In addition, the City owns and operates culinary water, sewer and garbage services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full-accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

A. Reporting Entity

The accompanying financial statements include the City, which is a political subdivision with corporate powers, created July 7, 1973, under Utah State law. The governing body is comprised of the council (legislative powers) and the Mayor (executive powers). As required by generally accepted accounting principles (GAAP), these financial statements present East Carbon City (referred to as the "primary government" for reporting purposes) and its component units. The financial statements include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters. Using these criteria no potential component units are included in the City's financial statements. The City provides the following services: public safety, judicial service, street and public improvements, parks, water, sewer, sanitation, planning and zoning and general administrative services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

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

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 requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Sales taxes, property taxes, franchise taxes, interest, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are recognized as revenue in the year for which they are levied. Amounts received or recognized as receivable at fiscal year end are included in the financial statements as taxes receivable and deferred revenue. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.

The Special Revenue Fund is the City's fund to account for accumulation of revenues from a private landfill operating in the City's jurisdiction and restricted for the repayment of general long-term debt and water and sewer improvement long-term debt.

The Debt Service Fund is the City's fund to account for accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City.

The Capital Project Fund accounts for the financial resources to be used for the acquisition or construction of major capital improvements, facilities, and equipment (other than those financed by proprietary funds and special revenue funds).

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water treatment plant and water distribution systems.

The Sewer Fund accounts for the operation and maintenance of the City's sewer distribution systems and lagoons.

The Garbage Fund accounts for the collection and disposal of residential garbage of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). 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 City has elected not to follow subsequent private-sector guidance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Budgetary Data

Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

1) During May of each year, the Mayor submits to the City Council a proposed operating budget for the next fiscal year commencing July 1st. The operating budget includes proposed expenditures and the proposed sources of revenues. A final budget for the current year ending June 30 is also included.

2) Copies of the proposed budget are made available for public inspection and review by the citizens of the City.

3) If the City does not exceed the certified tax rate, a public hearing is held prior to June 22 and the budget is legally adopted through passage of a resolution. If the City exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.

4) Once adopted, the budget can be amended by subsequent City Council action. The City Council can approve reductions in appropriations, but increases in appropriations, by fund, require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data (Continued)

5) Minor interim adjustments in estimated revenues and appropriations during the year ended June 30, 2006, have been included in the final budget approved by the City Council, as presented in the financial statements.

6) Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds.

E. Cash and Cash Equivalents

The City considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF), to be cash and cash equivalents.

F. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

G. Use of Estimates

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

H. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, infrastructure assets (e.g., roads, curb, gutter, sidewalks, and similar items), and water stock, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual significant cost and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

Buildings, improvements, equipment, and infrastructure assets of the City are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Buildings	10-30
Improvements	28-47
Office equipment	5-7
Machinery and equipment	5-10
Infrastructure	30

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds 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.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as cash and cash equivalents. Income from the investment of pooled cash is allocated based on fund balance. In addition, cash is separately held by individual funds.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7) in handling its depository and investment transactions. The City does not have separate policies that address the specific types of deposit and investment risks to which the City is exposed.

2. DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires the depositing of City 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.

The City's deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The City's deposits at June 30, 2006, were $66,147. Of these deposits, all were insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Authorized investments include 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; and shares or certificates in a money market mutual fund as defined in the Act.

The City is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external investment pool managed by the Utah State Treasurer's Office. The PTIF is not registered with the SEC as an investment company, and is authorized and regulated by the Money Management Act and the Money Management Council. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees – of the PTIF are allocated based on the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

2. DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2006, the City had the following investments:

Investment Type	Fair Value	Less Maturity	Quality Rating
Treasury Plus MM	$ 1,095,051	Less than 1 year	AAA
Utah Public Treasurer's Investment Fund	957,831	55 days *	Not Rated

* Weighted-average maturity

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

3. RESTRICTED CASH

Over the past several years, the City has issued Water and Sewer Revenue bonds along with general obligation bonds for the construction and improvement of its culinary water system and sewer lagoons and sewer distribution system as well as improvements to the City's road system. In connection with the bond agreements, the City has established bond sinking and bond reserve funds. These funds are to assure that adequate money is available to service debt payments as they come due. Reserved amounts are shown below, along with other restricted funds.

3. RESTRICTED CASH (Continued)

Enterprise Funds	
Sinking funds	$ 115,105
Reserve accounts	711,989
Sewer retainage accounts	21,023
Escrow - grant/loan	270,409
Emergency Repair & Maint	50,740
	$ 1,169,266
Special Revenue Fund	
Tippage Fees - Debt Serv.	$ 38,465
Debt Service Fund	
Rd Refunding sinking acct	$ 191,315
Rd Refunding reserve acct	199,581
	$ 390,896

4. PROPERTY TAXES

The property tax revenue of the City is collected and distributed by the Carbon County treasurer as an agent of the City. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a $10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until the date paid.

As of June 30, 2006, property taxes receivable consist of 1) delinquent taxes assessed but uncollected for calendar year 2005 and earlier and 2) taxes assessed as of January 1, 2006, but are not due and payable until November 30, 2006. It is expected that all delinquencies, plus accrued interest and penalties, will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

4. PROPERTY TAXES (Continued)

Beginning January 1, 1992, there was levied, in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county, from the uniform fee, are distributed by the county to each taxing entity in which the property is located, in the same proportion in which, revenue collected from ad valorem real property tax is distributed. The City recognizes age-based fees as revenues when collected by the county.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 95,815			$ 95,815
Total capital assets not being depreciated	$ 95,815	$ ...	$ ...	$ 95,815
Capital assets being depreciated:				
Buildings	$ 410,337			$ 410,337
Machinery and equipment	877,466			877,466
Infrastructure	2,073,714			2,073,714
Total capital assets being depreciated:	$ 3,361,517	$ ...	$ ...	$ 3,361,517

5. CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government				
Governmental activities:				
Less accumulated depreciation for:				
Buildings	$ 174,044	$ 13,678		$ 187,722
Machinery and equipment	584,811	45,943		630,754
Infrastructure	650,916	69,124		720,040
Total accumulated depreciation	$ 1,409,771	$ 128,745	$ ...	$ 1,538,516
Total capital assets being depreciated, net	$ 1,951,746	$ (128,745)	$ ...	$ 1,823,001
Governmental activities capital assets, net	$ 2,047,561	$ (128,745)	$ ...	$ 1,918,816

5. CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 7,976			$ 7,976
Water stock	431,234			431,234
Work in progress		$ 1,170,045		1,170,045
Total capital assets not being depreciated	$ 439,210	$ 1,170,045	$ ...	$ 1,609,255
Capital assets being depreciated:				
Buildings	$ 29,027			$ 29,027
Improvements other than buildings	10,625,871			10,625,871
Machinery and equipment	103,078			103,078
Total capital assets being depreciated:	$ 10,757,976	$ ...	$ ...	$ 10,757,976
Less accumulated depreciation for:				
Buildings	$ 27,651	$ 133		$ 27,784
Improvements other than buildings	3,698,732	334,133		4,032,865
Machinery and equipment	94,473	2,674		97,147
Total accumulated depreciation	$ 3,820,856	$ 336,940	$ ...	$ 4,157,796
Total capital assets being depreciated, net	$ 6,937,120	$ (336,940)	$ ...	$ 6,600,180
Business-type activities capital assets, net	$ 7,376,330	$ 833,105	$ ...	$ 8,209,435

5. CAPITAL ASSETS (Continued)

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

Governmental Activities:	
General government	$ 10,693
Public safety	38,550
Highways and public improvements	74,795
Parks and recreation	4,707
Total depreciation expense - governmental activities	$ 128,745
Business-type Activities:	
Water Fund	$ 261,266
Sewer Fund	75,114
Garbage Fund	560
Total depreciation expense - business-type activities	$ 336,940
Total depreciation expense	$ 465,685

6. PENSION PLANS

Cost Sharing Defined Benefit Pension Plans

Plan Description – The City contributes to the Local Governmental Noncontributory Retirement System, and Public Safety Other Division A Noncontributory System, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (the 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 established and amended by the State Legislature.

6. PENSION PLANS (Continued)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (the 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 Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage, and Firefighters Retirement System, which is for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy - In the Local Governmental Noncontributory Retirement System, the City is required to contribute 11.09% of their employees' annual covered salary. In the Public Safety Noncontributory Retirement System, the City is required to contribute 19.34% of members' salaries. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The City's contributions to the Local Governmental Noncontributory Retirement System, for June 30, 2006, 2005 and 2004 were $18,421.47, $18,842.94, and $16,251.36, respectively; for the Public Safety Noncontributory Retirement System, the contributions for June 30, 2006, 2005 and 2004 were $23,859.45, $23,087.62, and $13,755.37, respectively. The contributions were equal to the required contributions for each year.

The City also sponsors a defined contribution retirement plan under Internal Revenue Code Section 401(k), which is administered by the Utah Retirement Systems. The plan covers all full-time City employees who participate in the State's contributory and non-contributory retirement plans. Participants are fully vested in employer and employee contributions.

The City has no obligation to make contributions in behalf of City employees to the 401(k) plan for the year ended June 30, 2006. The contributions made by participants of the City were $960.00 for the year ended June 30, 2006. Participants may make tax deferred contributions through a salary reduction agreement up to a maximum of $15,000.

The City also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits employees to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participating. Employee contributions to the Section 457 for years ended June 30, 2006, 2005, 2004 were $1,289.00, $1,781.00 and $2,160.00 respectively. The assets of the plan are administered and held by the Utah Retirement Systems and a third-party administrator.

7. LONG-TERM DEBT

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending	Governmental Activities			Business-type Activities		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2007	$ 135,000	$ 55,265	$ 190,265	$ 177,874	$ 279,014	$ 456,888
2008	139,000	50,540	189,540	299,482	271,301	570,783
2009	144,000	45,675	189,675	414,576	257,989	672,565
2010	149,000	40,635	189,635	426,022	238,883	664,905
2011	155,000	35,420	190,420	446,534	219,796	666,330
2012-2016	857,000	89,110	946,110	2,640,868	770,557	3,411,425
2017-2021				684,488	322,907	1,007,395
2022-2026				468,544	240,981	709,525
2027-2031				387,162	161,638	548,800
2032-2036				484,242	64,558	548,800
2037				23,952	266	24,218
	$1,579,000	$ 316,645	$1,895,645	$ 6,453,744	$2,827,890	$ 9,281,634

7. LONG-TERM DEBT (Continued)

Revenue Bonds – Revenue bonds payable at June 30, 2006, with their outstanding balances, are comprised of the following individual issues:

Governmental Activities:

$2,026,000 Limited Obligation Road Refunding Bond, Series 2002, due in annual principal installments of $135,000 to $183,000, beginning in 1995 and ending August 1, 2036 with interest at 4.5% per annum.	$ 1,579,000

Business-type Activities:

$1,015,500 Water Revenue Bonds, Series 1995F, due in quarterly principal installments of $13,270, beginning in 1995 and ending August 1, 2036 with interest at 4.5% per annum.	$ 904,229
$1,750,000 Water Revenue Bonds, Series 1995C, due in annual principal installments of $2,000 to $219,000, beginning July 1, 1997 through July 1, 2016 with interest of 5.0% per annum.	1,647,000
$514,286 Water Revenue Bonds, Series 1995D, due in annual principal installments ranging from $50,286 to $62,000 beginning July 1, 1996 through July 1, 2015, interest at 3.5% payable. July 1, 1996 through July 1, 2015.	514,286
$235,000 Water Revenue Bonds, Series 1998, due in annual principal installments ranging from $9,000 to $15,000 beginning January 1, 1999 and ending January 1, 2019 with interest at 3.0% per annum.	168,000
$845,000 Water Revenue Bonds, Series 2000, due in annual principal installments ranging from $22,000 to $98,000 beginning January 1, 2002 and ending January 1, 2016 with interest at 5.0% per annum.	707,000
$180,000 Water Revenue bonds, Series 2003, due in annual principal installments ranging from $7,000 to $12,000 beginning March 1, 2005 and ending March 1, 2024 with interest at 2.5%.	166,000
Subtotal	$ 4,106,515

7. LONG-TERM DEBT (Continued)

Business-type Activities (Continued):

$79,000 Bond carried by Zions First National Bank, due in principal installments ranging from $1,000 to $9,000, beginning May 1, 1990 and ending May 1, 2009 with interest at 11.22% per annum.	$ 24,000
$1,015,500 Sewer Revenue Bonds, Series 1995E, due in quarterly installments of $13,720, beginning in 1995 and ending August 1, 2036 with interest at 4.5% per annum.	904,229
$1,042,000 Sewer Revenue Bonds, Series 1995B, due in annual principal installments ranging from $3,000 to $121,000 beginning July 1, 1997 and ending July 1, 2015 with interest at 5.5% per annum.	919,000
$500,000 Sewer Revenue Bonds, Series 2005, due in annual principal installments of $25,000 beginning April 1, 2007 and ending April 1, 2026 with zero percent interest.	500,000
Subtotal	$ 2,347,229
Total	$ 6,453,744

The City issued Series 1995A bonds, which were later refunded by Series 2002 bonds and have been used in governmental activities for the purpose of making improvement to City roads, curbs and sidewalks. Revenue bonds issued for enterprise activities were used to make improvements to the City's water and sewer distribution system along with additional improvements made to the City's sewer Lagoons.

7. LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Revenue bonds	$ 1,989,000		$ (410,000)	$ 1,579,000	$ 135,000
Capital leases	42,537		(12,212)	30,325	12,802
Compensated absences	17,273		(1,370)	15,903	
Governmental activity long-term liabilities	$ 2,048,810	$ ...	$ (423,582)	$ 1,625,228	$ 147,802
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 6,098,396	$ 500,000	$ (144,652)	$ 6,453,744	$ 177,874
Compensated absences	10,351		(8,979)	1,372	
Business-type activity long-term liabilities	$ 6,108,747	$ 500,000	$ (153,631)	$ 6,455,116	$ 177,874

8. CAPITAL LEASES

The City has entered into two lease agreements as lessee for financing the acquisition of a Dodge Durango and a Ford Explorer for use in the City's police department.

These lease agreements qualify as capital leases for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

8. CAPITAL LEASES (Continued)

The asset acquired through the capital lease is as follows:

	Governmental Activities
Machinery and equipment	$ 60,395
Total assets	$ 60,395
Less: Accumulated depreciation	24,064
Net assets	$ 36,331

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2006, are as follows:

Years Ending June 30,	Governmental Activities
2007	$ 9,980
2008	9,980
2009	4,223
2010	4,223
2011	4,224
Total minimum lease payments	$ 32,630
Less: amount representing interest	(2,304)
Present value of minimum lease payments	$ 30,326

9. CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City has no pending lawsuits and notice of claims filed by different individuals or entities.

10. PROPERTY TAX CALENDAR

The City adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the county as of July 1. The taxes are payable to the city treasurer by the end of November and are

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays a monthly premium to Utah Local Governments Trust for its health insurance coverage. The City is insured through a local government risk pool for its general liability coverage. At June 30, 2006, the City had no legal claims or judgments filed against it related to the risks mentioned above.

12. PRIOR PERIOD ADJUSTMENT

Governmental Funds

There were prior period adjustments made to the general fund balance in the amount of $34,890. This was necessary because cash balances had been misstated in the prior financial statements by $17,617 and compensated absences that were not going to be retired with current financial resources had been included as current liabilities in the general fund of $17,273.

Government-Wide Financial Statements

A prior period adjustment was made in the government wide financial statements due to misstatement of cash ($17,617) from prior year financial statements and an error in accruing bond interest expense for revenues bonds of $(46,378)

Cash misstatement	$ 17,617
Bond interest expense	(46,378)
Adjustment to government-wide financial statements	$ (28,761)

13. RECEIVABLES

Receivables as of June 30, 2006, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	GENERAL FUND	SPECIAL REVENUE FUND	WATER FUND	ELECTRIC FUND	GARBAGE FUND	TOTAL
Receivables:						
Taxes	$ 591,963					$ 591,963
Accounts			$ 35,376	$ 14,778	$ 8,872	59,026
Miscellaneous		$ 35,769				35,769
Gross receivables	$ 591,963	$ 35,769	$ 35,376	$ 14,778	$ 8,872	$ 686,758
Less: allowance for uncollectible accounts			(8,906)			(8,906)
Net receivables	$ 591,963	$ 35,769	$ 26,470	$ 14,778	$ 8,872	$ 677,852

14. INTERFUND BALANCES AND TRANSFERS

Internal Balances – The City had the following Due From Other Fund/Due To Other Funds in the governmental financial statements for the year ended June 30, 2006. The purpose of the balance is to transfer tippage fees from the Special Revenue fund to the General fund.

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	$ 172,357	
Special Revenue Fund		$ 172,357
Total internal balances	$ 172,357	$ 172,357

14. INTERFUND BALANCES AND TRANSFERS (Continued)

Transfers – Interfund transfers were used to pay debt payments with tippage fees collected in the Special Revenue fund and paid in the Debt Service and Water and Sewer funds. During the year ended June 30, 2006, the transfers were as follows:

	TRANSFERS IN	TRANSFERS OUT	TOTAL
Special Revenue Fund		$ 456,065	$ 456,065
Debt Service Fund	$ 168,516		168,516
Water Fund	166,737		166,737
Sewer Fund	120,812		120,812
Totals	$ 456,065	$ 456,065	$ 912,130

15. SUBSEQUENT EVENTS

The City has contacted several federal and state agencies for the purpose of refunding some of their outstanding bonds. From correspondence received by the City it appears that some of the outstanding revenue bonds will be refunded during the year ended June 30, 2007. The refunding of bond issues will mainly affect the interest rate that is charged on bonds.

16. OTHER POSTEMPLOYMENT BENEFITS

The City adopted Resolution #13-05 which allows employees of the City to receive medical benefits only upon retirement. Employees are entitled to one month paid medical insurance coverage for every 2.5 days of unused sick leave. This will be for employees and spouses and only applies to the medical portion of the insurance.

As of June 30, 2006, there was 1 employees receiving health insurance coverage for his family. The City finances the plan on a pay-as-you-go basis. For the year ended June 30, 2006, the City paid $810.82 for these benefits.

17. ECONOMIC DEPENDENCY

The City derives significant revenues from tippage fees collected from the ECDC landfill. The City uses the tippage fees to make their debt payments. However, the amount of tippage fees collected has been steadily decreasing over the last few years.

18. RESTRICTED NET ASSETS/FUND BALANCES

The restricted net assets of government wide financial statements and reserved fund balances of fund financial statements are disclosed below:

Net Assets – Government Wide Financial Statements

Governmental Activities

Class "C" Road – Funds received from the State of Utah to be used to improve Class C roads in the City.

Debt Service Funds – Debt covenants require the City to maintain sinking and reserve funds for the repayment of revenue bonds.

Business-type Activities

Debt Service Funds – Debt covenants associated with revenue bonds require the City to reserve funds for emergencies and for the repayment of revenue bonds.

Fund Balance – Fund Financial Statements

The same amounts that are reported as restricted net assets in the Government Wide Financial Statements are shown as reserved fund balances in the Fund Financial Statements.

19. BUDGET VARIANCE

For the year ended June 30, 2006, the City had an unfavorable budget variance in the following funds and departments:

General Fund	
Legislative	($640)
City Court	($1,875)
Administrative	($1,848)
Treasurer	($2,506)
Non-Departmental	($10,183)
Special Revenue Fund	
Transfers out	($456,065)
Debt Service Fund	
Bond retirement	($279,590)
Capital Project Fund	
Miscellaneous	($347)

20. INSURANCE COVERAGE

The following insurance polices were in force during the year ended June 30, 2006.

Insurer:
Utah Local Governments Trust: Policy Number GP06300788 Expires 7/1/06
Provides all risk property insurance with the following limits:

Accidental Electric/Mechanical Failure	$3,278,865
Buildings	3,061,505
Contents	217,360
Contractors Equipment	65,693

Insurer:
Utah Local Governments Trust: Policy Number TGL-084
Continuous from 6/15/86
Provides general liability and auto liability insurance with the following limits:

General aggregate	$2,000,000
Combined Single limit on auto	2,000,000

Insurer:
Unigard Insurance Company: Policy Number BA615991, Expires 07/01/06
Provides auto physical damage with the following limits:

Deductible	$100/250
Comprehensive	Yes
Collision	Yes

21. WATER AND SEWER CONNECTIONS AND CHARGES

The City has 570 sewer and 798 water connections at June 30, 2006. Of those connections 570 sewer and 798 water connections are within the boundaries of the City and no sewer or water connections are outside the boundaries of the City. Of the 570 sewer connections 570 are active and 0 are vacant, also, of the 798 water connections 611 are active and 187 are vacant. Additionally, at June 30, 2006 the City had no outstanding applications for sewer or water services.

The City charges a connection fee of $1,500.00 and a reconnect fee of $50.00 if the reconnection occurs due to non-payment of previous service. Otherwise the reconnection fee is $25.00. Additionally, a refundable deposit of $200.00 is required for all new connections since March 26, 1996. Sewer is charged at the rate of $20.50 per month per connection and water has a base charge of $15.50 on a base of 6,000 gallons with $1.25 being charged for every 50,000 gallons used above the base rate. Once service has been established a user may have the water turned off and pay a rate of $4.00 per month.

CITY OF EAST CARBON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL AMOUNTS	FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes:				
Property taxes	$ 293,900	$ 280,400	$ 282,848	$ 2,448
General sales and use tax	97,000	97,000	123,583	26,583
Franchise tax	29,000	13,500	19,476	5,976
Licenses and permits	8,600	33,500	8,057	(25,443)
Intergovernmental	71,300	75,400	60,766	(14,634)
Charges for services	72,500	72,500	71,387	(1,113)
Fines and forfeitures	23,500	23,500	31,600	8,100
Investment earnings	16,000	16,000	14,996	(1,004)
Contributions			7,624	7,624
Miscellaneous revenue	42,100	42,100	38,036	(4,064)
Total revenues	$ 653,900	$ 653,900	$ 658,373	$ 4,473
EXPENDITURES:				
Current:				
General government:				
Legislative	$ 22,000	$ 22,000	$ 22,640	$ (640)
City court	16,860	16,860	18,735	(1,875)
Administrative	58,450	58,450	60,298	(1,848)
Recorder	46,753	46,753	45,405	1,348
Treasurer	53,867	53,867	56,373	(2,506)
Attorney	13,000	13,000	9,568	3,432
Non-departmental	25,400	25,400	35,583	(10,183)
City hall and buildings	800	800	577	223
Total general government	$ 237,130	$ 237,130	$ 249,179	$ (12,049)
Public safety:				
Police	$ 270,312	$ 270,312	$ 259,187	$ 11,125
Fire	14,400	14,400	9,700	4,700
Inspection	1,407	1,407	226	1,181
Total public safety	$ 286,119	$ 286,119	$ 269,113	$ 17,006
Highways and public improvements:				
Highways - general	$ 63,805	$ 63,805	$ 53,134	$ 10,671
Class "C" Roads	58,455	58,455	43,034	15,421
Total highways and public improvements	$ 122,260	$ 122,260	$ 96,168	$ 26,092

CITY OF EAST CARBON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
Parks, recreation, and public property:				
Parks	$ 27,391	$ 27,391	$ 24,552	$ 2,839
Total parks, recreation and public property	$ 27,391	$ 27,391	$ 24,552	$ 2,839
Intergovernmental expenditures:				
Contributions to other governmental units	$ 1,000	$ 1,000	$ 1,126	$ (126)
Total intergovermental expenditures	$ 1,000	$ 1,000	$ 1,126	$ (126)
Debt service:				
Principal retirement			$ 12,211	$ (12,211)
Interest and fiscal charges			1,992	(1,992)
Total debt service	$ ...	$ ...	$ 14,203	$ (14,203)
Total expenditures	$ 673,900	$ 673,900	$ 654,341	$ 19,559
Excess of revenue over (under) expenditures	$ (20,000)	$ (20,000)	$ 4,032	$ 24,032
OTHER FINANCING SOURCES (USES):				
Transfers in	$ 20,000	$ 20,000		$ (20,000)
Total other financing sources (uses)	$ 20,000	$ 20,000	$ ...	$ (20,000)
Excess of revenues and other sources over (under) expenditures and other uses			$ 4,032	$ 4,032
Fund balances - beginning of year	$ 64,407	$ 64,407	64,407	
Prior period adjustment			34,890	34,890
Fund balances - end of year	$ 64,407	$ 64,407	$ 103,329	$ 38,922

CITY OF EAST CARBON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES:				
Charges for services				
Tippage fees	$ 575,000	$ 575,000	$ 456,065	$ (118,935)
Total revenues	$ 575,000	$ 575,000	$ 456,065	$ (118,935)
EXPENDITURES:				
Total expenditures	$ ...	$ ...	$ ...	$ ...
Excess of revenue over (under) expenditures	$ 575,000	$ 575,000	$ 456,065	$ (118,935)
OTHER FINANCING SOURCES (USES):				
Transfers out			$ (456,065)	$ (456,065)
Total other financing sources (uses)	$ ...	$ ...	$ (456,065)	$ (456,065)
Excess of revenues and other sources over (under) expenditures and other uses	$ 575,000	$ 575,000		$ (575,000)
Fund balances - beginning of year	8,156	8,156	$ 8,156	
Fund balances - end of year	$ 583,156	$ 583,156	$ 8,156	$ (575,000)

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Wellington City
Wellington, Utah 84542

RE: Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the City of East Carbon as of and for the year ended June 30, 2006, and have issued our report thereon dated January 23, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Smuin, Rich & Marsing

Price, Utah

January 23, 2007

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Honorable Mayor and Members of the City Council
City of East Carbon
East Carbon, Utah 84520

RE: Auditors' Report on State Compliance
for State Grants

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, of the City of East Carbon for the year ended June 30, 2006 and have issued our report thereon dated January 23, 2007. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

Class "C" Road (Utah Department of Transportation)
Liquor Law Enforcement (State Tax Commission)
CIB Loan (Department of Community and Economic Development)
CIB Grant (Department of Community and Economic Development)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt	Budgetary Compliance
Cash Management	Truth in Taxation and Property Tax Limitation
Purchasing Requirements	Uniform Building Code Standards
Justice Courts	Asset Forfeitures
Other Compliance Requirements	

The City did not receive any non-major State grants during the year ended June 30, 2006.

The management of the City of East Carbon is responsible for the City'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 City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of East Carbon, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

SMUIN, RICH & MARSING

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January 23, 2007

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Honorable Mayor and Members of the City Council
City of East Carbon
East Carbon, Utah 84520

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of The City of East Carbon for the year ended June 30, 2006.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

STATE OF UTAH GENERAL REQUIREMENTS

Deposit Requirements

Utah Code 51-4-2(2) states that "All public funds shall be deposited daily, whenever practicable, but not later than three days after receipt." During the audit of the financial statements for the year ended June 30, 2006, we found the City had not complied in some instances with the three-day deposit rule. Of sixty-three receipts tested, we found that thirty-three were not deposited within the three-day period.

We recommend that management review the requirements for depositing public funds with employees responsible for depositing money received by the City. We also recommend the City implement the procedures necessary to make sure that City employees comply with this requirement. To make sure procedures are followed, the City may need to monitor how procedures are being applied.

Clients Response

The City has not been aware that it was not in compliance with deposit rules issued by the State of Utah. City management will review the current law governing the requirement of depositing City's funds and make the necessary adjustments to bring the City into compliance with State law.

STATE OF UTAH GENERAL REQUIREMENTS (continued)

Unfavorable Budget Variances

Utah law prohibits officers and employees of Cities to incur expenditures or encumbrances in excess of the total appropriations for budgets of the City. The City has overspent the following departments in the general fund in the current fiscal year:

General Government	
Legislative	($ 8,020)
City Court	(2,710)
Administrative	(1,848)
Treasurer	(2,506)
Non-departmental	(10,183)
Intergovernmental	(126)
Debt Service	(14,203)

We recommend the City review the expenditures and encumbrances made, and compare against the adopted budgets, to determine if the budgets of the City are being overspent. Department directors need to evaluate the expenditures for their departments to ensure that budgets are not being over spent.

Clients Response

The City will monitor budgets of the City to make sure that departments are not over spent in comparison with their adopted budgets in the future.

Treasurer Bond

Utah Code requires every public treasurer secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. The amount of the fidelity bond is based on criteria set forth in Utah Code 51-7-15 and Rule 4 of the Utah Money Management Council. During the year ended June 30, 2006, the City's fidelity bond was less than it needed to be to comply with State Law.

We recommend the City increase their fidelity bond to the limits that are necessary to comply with Utah Code.

Clients Response

The City will review the State Code and determine what the fidelity bond requirement is with relationship to the City and increase it to the appropriate level.

Bond Reserves

When the City has issued revenue bonds certain covenants have been made with respect to the retirement of these bonds and maintaining reserve and sinking funds. During the audit, we found where two bond issues, Series 2003 and Series 2005, have not set aside the necessary reserve amounts to meet their bond covenants.

We recommend the City comply with bond covenants by making contributions to reserve accounts in the amounts required by bond covenants.

Clients Response

The City will review the revenue bonds Series 2003 and Series 2005 to determine what the reserve requirements are and if necessary set aside funds which will be adequate to meet bond reserve covenants.

Purchasing Policy

The City has adopted a purchasing policy that is required by State law. In the policy it requires the City to use purchase orders when obligating the City. Currently, the City is not using purchase orders as required by the policy and therefore, is not in compliance with its policy.

We recommend that the City begin using purchase orders as required by its policy, or make changes to their policy. In either case, the City should comply with policies it has adopted.

Clients Response

The City will review its purchasing policy and determine if changes are necessary. The City will comply with the policies it adopts.

INTERNAL CONTROL ITEMS

Timely Reconciliation's and Financial Statements

As we began the audit in early December of 2006, we found that bank reconciliation's for the year ending June 30, 2006 had still not been completed. We also found that current financial statements were not available and had not been run during the year. In some instances, transactions were still being processed in the financial statements.

Timely reconciliation of bank accounts and the processing of transactions and running of financial statements are critical to maintaining good internal control structure, safeguarding City assets and providing reliable and accurate accounting data for the Major and City Council. We recommend the City management require these reconciliation's and financial data to be produced on a timely basis.

Client Response

The City will review with employees the current operation of processing financial data at the City and make the changes they feel are necessary.

SUMMARY

We feel the State Compliance and internal control issues mentioned above are some areas where the City can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

Smuin, Rich & Marsing

Price, Utah

January 29, 2007