EMERY COUNTY SPECIAL SERVICE DISTRICT #1

FINANCIAL STATEMENTS

DECEMBER 31, 2006

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	10
STATEMENT OF ACTIVITIES	11
BALANCE SHEET	12
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	13
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTAL INFORMATION:	
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	21
BUDGETARY COMPARISON SCHEDULE	22
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	24
AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE	26

Kimball & Roberts
Certified Public Accountants
A Professional Corporation
Box 663
Richfield, Utah 84701
Phone 896-6488

INDEPENDENT AUDITOR'S REPORT

The Honorable Board Members
Emery County Special Service District #1
Castle Dale, Utah 84513

We have audited the accompanying financial statements of the governmental activities of Emery County Special Service District #1, a component unit of Emery County, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Emery County Special Service District #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the government activities of Emery County Special Service District #1 as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2007, on our consideration of Emery County Special Service District #1'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 budgetary comparison information on pages 4 through 8 and 21 through 22, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Kimball & Roberts

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

May 14, 2007
Richfield, Utah

Emery County Special Service District #1
Management's Discussion and Analysis

This discussion and analysis of Emery County Special Service District #1's (District) financial performance provides an overview of the District's financial activities for the year ending December 31, 2006. This report is in conjunction with the District's financial statements, which are part of this report.

The purpose of the Emery County Special Service District #1 is to construct, repair, maintain roads, flood control facilities, water, sewage, drainage, garbage, street lighting, and snow removal within the District's boundaries.

Financial Highlights:

- The Emery County Special Service District #1 does not own any capital assets or have any long-term liabilities. All roads repaired or constructed in the course of special road construction projects become a part of the infrastructure of Emery County.

- At the close of the current year, the Emery County Special Service District #1 reported ending Net Assets of $2,845,834 of which $2,624,140 was restricted for road construction projects already in progress, or with contracts in force.

- The District does not have any full-time employees and spent less than 14% on general government expenditures leaving 86% of the funds for special road projects. During 2006 the District expended $910,340 on special road projects.

- The District's revenues had decreased steadily in prior years due to three factors; 1) Coal production reported to Minerals Management Services has decreased 30% in the last few years due to a mine shutdown and other unknown reasons. 2) The District also receives lease revenues on gas production on State and federal lands. 3) By Emery County resolution, the Districts allocation has been decreased yearly from 100% in 1998 to 47% in 2002, the allocation for 2006 is 44%. In 2006 total mineral lease allocations from the State decreased. See the following graph which clearly demonstrates the change in revenues.

- Expenditures for special road projects were 91% of total in 2005 and 86% in 2006. The District general government expenses include a payment to Emery County each year of $95,000 for accounting, rent and support services. The other general government expenses for travel, postage, board member stipends, liability insurance and telephone expenses are approximately 3-4% of total expenditures each year.

Using This Annual Report

This discussion and analysis are intended to serve as an introduction to Emery County Special Service District #1. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with a difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities present information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the year.

The district has one governmental fund, the general fund. The general fund at year end has unreserved fund balance of $221,694.

Reporting the District as a Whole

The District realizes revenues from several sources; 1) mineral lease revenues received from the State of Utah, 2) other grants from the State of Utah, passed through Emery County, 3) reimbursements for expenditures made on behalf of private entities, 4) investment earnings, and 5) other sundry revenues.

Contacting the District

This financial report is designed to provide the citizens with a general overview of the District's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chairman, Merrill A. Swasey, P.O. Box 1055, Castle Dale, UT 84513.

Condensed Financial Statements:

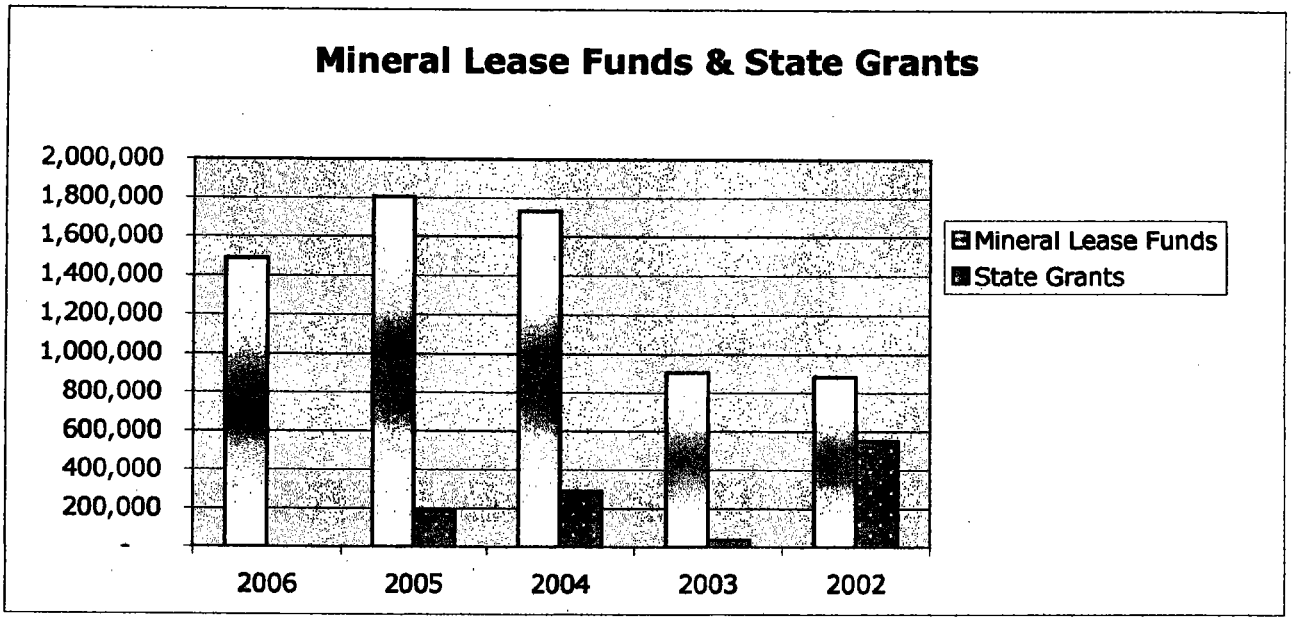
A comparative analysis is provided for 2005 and 2006.

	2005	2006
Assets:		
Current	2,191,015	3,094,120
Non-Current	-	-
Total Assets	2,191,015	3,094,120
Liabilities:		
Current	367	248,286
Long-Term	-	-
Total Liabilities	367	248,286
Net Assets:		
Restricted	2,190,648	2,624,140
Unrestricted	-	221,694
Net Assets	2,190,648	2,845,834

	2005	2006
Revenues:		
Charges for Services	583,813	77,077
Operating Grants	1,989,333	1,486,819
General Revenues	63,079	142,295
Total Revenues	2,636,225	1,706,191
Expenditures:		
Current	137,429	140,665
Capital	1,578,697	910,340
Total Expenditures	1,716,126	1,051,005
Change in Net Assets	920,099	655,186
Beginning Net Assets	1,270,549	2,190,648
Ending Net Assets	2,190,648	2,845,834

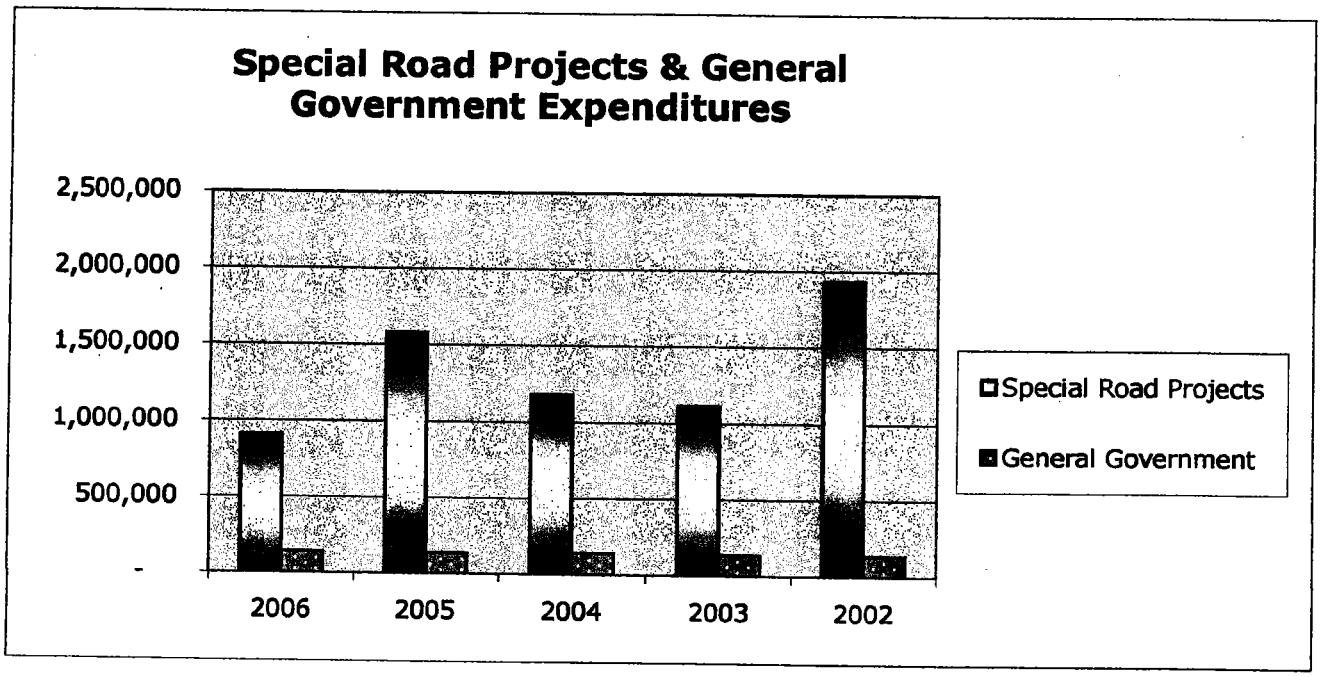
Emery County Special Service District #1
Revenue - Five Year Comparison

	2006	2005	2004	2003	2002
Mineral Lease Funds	1,486,819	1,804,256	1,731,997	905,813	883,058
State Grants	-	185,077	285,519	34,838	547,738
Charges For Services	77,077	583,813	122,863	376,783	32,492
Sundry	30	44	310	32	5,256
Investment Earnings	142,265	63,035	18,538	10,405	23,368
Total	1,706,191	2,636,225	2,159,227	1,327,871	1,491,912



Emery County Special Service District #1
Expenditures - Five Year Comparison

	2006	2005	2004	2003	2002
Special Road Projects	910,340	1,578,697	1,181,539	1,116,466	1,933,772
General Government	140,665	137,429	138,165	136,146	137,782
Total	1,051,005	1,716,126	1,319,704	1,252,612	2,071,554



BASIC FINANCIAL STATEMENTS

EMERY COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF NET ASSETS

December 31, 2006

	Governmental Activities
ASSETS	
Current Assets:	
Cash	2,821
Investments	3,091,299
TOTAL ASSETS	3,094,120
LIABILITIES	
Accounts Payable	222,728
Retention Payable	25,558
TOTAL LIABILITIES	248,286
NET ASSETS	
Restricted:	
Reserved for Road Construction Projects	2,624,140
Unreserved	221,694
TOTAL NET ASSETS	2,845,834
TOTAL LIABILITIES AND NET ASSETS	3,094,120

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

EMERY COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2006

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants/ Contributions	Governmental Activities
Functions/Programs:				
Governmental Activities:				
General Government	140,665	-	1,486,819	1,346,154
Special Road Projects	910,340	77,077	-	(833,263)
TOTAL REVENUES	1,051,005	77,077	1,486,819	512,891
General Revenues:				
Sundry				30
Unrestricted Investment Earnings				142,265
Total General Revenues				142,295
Changes in Net Assets				655,186
Net Assets - Beginning				2,190,648
Net Assets - Ending				2,845,834

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

EMERY COUNTY SPECIAL SERVICE DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUND TYPE

December 31, 2006

	General Fund
ASSETS	
Cash in Bank - Money Management Account	2,821
Investment - Public Treasurer's Investment Fund	3,091,299
TOTAL ASSETS	3,094,120
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts Payable	222,728
Retentions Payable	25,558
Total Liabilities	248,286
Fund Equity:	
Reserved Fund Balance:	
Reserved for Construction	2,624,140
Unreserved Fund Balance	221,694
Total Fund Equity	2,845,834
TOTAL LIABILITIES AND FUND EQUITY	3,094,120

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

EMERY COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPE

For The Year Ended December 31, 2006

	General Fund
REVENUE	
State Sources	1,486,819
Sundry Revenues	30
Charges for Services	77,077
Investment Earnings	142,265
TOTAL REVENUES	1,706,191
EXPENDITURES	
General Government	140,665
Special Road Projects	910,340
TOTAL EXPENDITURES	1,051,005
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	655,186
FUND BALANCE - BEGINNING OF YEAR	2,190,648
FUND BALANCE - END OF YEAR	2,845,834

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Emery County Special Service District #1, a component unit of Emery County, was created by adoption of a resolution to establish a special service district by the Emery County Commissioners on November 2, 1988 for the purpose of improving the county road system in Emery County. The District services were expended by resolution to include flood control facilities, water, sewage drainage, garbage, street lighting and snow removal within the District boundaries. The Special Service District's Administrative Control Board consists of five (5) members, each of whom was appointed by the Board of Commissioners. The Board of Commissioners appointed the initial two members to serve two year terms and the remaining three members to serve four year terms. The Board members, at their initial meeting, elected a chairperson and a secretary to serve such terms as the board shall determine.

B. Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District, the primary government, as a whole. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely 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 requirements 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 and fiduciary funds, even though he latter are excluded from the government-wide financial statements. Major individual governmental 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 accrual. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 government 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 claims and judgments, are recorded only when payment is due.

State revenue sources and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, if material. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government. The District's only fund is the General Fund

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

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

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables:

All trade receivables are deemed 100% collectible and , therefore, no allowance for uncollectibles is shown when receivables are recorded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Designation of fund balance represent tentative management plans that are subject to change.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGET PROCESS

Emery County Special Service District #1 has properly adopted required budgets for 2006. Changes to the adopted budget were properly made by resolution and public hearing of the County Commissioners.

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted by the District.

2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance - that is estimated revenues and expenditures must equal.

3. On or before November 1, the District Manager prepares a tentative budget and files it with the Board of Trustees.

4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.

5. Notice of the scheduled public hearing is published at least ten days prior to the meetings.

6. Public hearing are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits:

At year-end, the carrying amount of the Special Service Districts deposits was $2,821 and the bank balance was $3,893. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council.

Cash and investments as of December 31, 2006, consist of the following:

	Fair Value
Demand Deposits	2,821
Investments - PTIF	3,091,299
Total Cash and Investments	3,094,120

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental Activities - Unrestricted	3,094,120
Total Cash and Investments	3,094,120

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that District funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006, $0 of the local government's bank balances of $3,893 were uninsured and uncollateralized.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and 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 upon the participants' average daily balances.

For the year ended December 31, 2006, the local government has investments of $3,091,299 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 local government manages its exposure to declines in fair value by investments mainly 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.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments. in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 4 - COMMITMENTS

At December 31, 2006, the District had committed funds for the following road projects:

Project	Amount
Temple Mountain Road - Engineering	43,930
Temple Mountain Road	1,451,414
South Moore Phase III	1,122,000
Miller Creek Road	6,796
Total Commitments	2,624,140

NOTE 5 - LONG-TERM DEBT

On December 7, 2006, the Permanent Community Impact Fund Board authorized a $2,700,000 loan to the District for the construction of road improvements, including the construction, reconconstruction and installation of improvements to the South Moore Cutoff Road. The loan will be evidenced by a mineral lease revenue bond to be issued by the issuer and purchased by the Board. The interest rate will be 0%. The bonds will mature in five principal payments, payable on January 1 of each year commencing on January 1, 2009. The bonds were issued in January 2007.

NOTE 6 - RISK MANAGEMENT

Emery County Special Service District #1 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; public officials errors and omissions. The District is insured through the Utah Local Governments Trust. The limits of general liability and property damage are $2,000,000 combined single limit, with a $0.00 deductible for each occurrence.

Claims have not exceeded premiums in any of the last three calendar years.

REQUIRED SUPPLEMENTARY INFORMATION "UNAUDITED"

EMERY COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended December 31, 2006

Budgetary Comparison Schedules:

The Budgetary Comparison Schedules presented in this section of the report are for the District's General Fund.

Budgeting and Budgetary Control:

Budgets for the General Fund are legally required and are prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the District's Board prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Board through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations:

For the year ended December 31, 2006, spending for all funds and departments of the District was within the approved budgets.

EMERY COUNTY SPECIAL SERVICE DISTRICT #1
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND

For The Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Intergovernmental:				
State Mineral Lease	1,700,000	1,700,000	1,486,819	(213,181)
Shared Contracts	1,732,000	1,732,000	77,077	(1,654,923)
Total Intergovernmental	3,432,000	3,432,000	1,563,896	(1,868,104)
Sundry Revenues	-	-	30	30
Investment Earnings	30,000	30,000	142,265	112,265
Contribution from Fund Balance	1,200,000	1,200,000	-	(1,200,000)
Total Revenues	4,662,000	4,662,000	1,706,191	(2,955,809)
Expenditures:				
Current:				
Special Road Projects	4,504,000	4,504,000	910,340	3,593,660
Administrative Expenses	158,000	158,000	140,665	17,335
Total Expenditures	4,662,000	4,662,000	1,051,005	3,610,995
Excess Revenues Over Expenditures	-	-	655,186	655,186
Fund Balance - Beginning			2,190,648	
Fund Balance - Ending			2,845,834	

COMPLIANCE SECTION

Kimball & Roberts
Certified Public Accountants
A Professional Corporation
Box 663
Richfield, Utah 84701
Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Board Members
Emery County Special Service District #1
Castle Dale, Utah 84513

We have audited the financial statements of the governmental activities of Emery County Special Service District #1, a component unit of Emery County, as and for the year ended December 31, 2006, which collectively comprise Emery County Special Service District #1's basic financial statements and have issued our report thereon dated May 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emery County Special Service District #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emery County Special Service District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Emery County Special Service District #1's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects Emery County Special Service District #1's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Emery County Special Service District #1's financial statements that is more than inconsequential will not be prevented or detected by Emery County Special Service District #1's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Emery County Special Service District #1's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emery County Special Service District #1'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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management and board members and is not intended to be and should not be used by anyone other than these specified parties.

Kimball & Roberts

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

May 14, 2007
Richfield, Utah

Kimball & Roberts
Certified Public Accountants
A Professional Corporation
Box 663
Richfield, Utah 84701
Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

The Honorable Board Members
Emery County Special Service District #1
Castle Dale, Utah 84513

We have audited the accompanying financial statements of the governmental activities of Emery County Special Service District #1, a component unit of Emery County, for the year ended December 31, 2006, and have issued our report thereon dated May 14, 2007. As part of our audit, we have audited Emery County Special Service District #1's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; 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 December 31, 2006. The County received the following major State assistance program from the State of Utah:

Mineral Lease (Department of Transportation)

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Other Compliance Requirements

The management of Emery County Special Service District #1 is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, Emery County Special Service District #1, 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 programs for the year ended December 31, 2006.

Kimball & Roberts

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

May 14, 2007
Richfield, Utah