

Parowan City  
Iron County, Utah

**ANNUAL FINANCIAL REPORT**

For the Year Ended June 30, 2013

Parowan City  
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June 30, 2013

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and  
Members of the City Council  
Parowan, Utah

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parowan, Utah, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parowan, Utah, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

## **Emphasis of Matter**

As described in Note 4-D to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 13 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Parowan, Utah's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the City of Parowan, Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit

performed in accordance with *Government Auditing Standards* in considering the City of Parowan, Utah's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC  
St. George, Utah  
November 12, 2013



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

As management of Parowan City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2013.

**FINANCIAL HIGHLIGHTS**

- \*Total net position for the City as a whole increased by \$183,292.
- \*Total unrestricted net position for the City as a whole increased by \$94,979.
- \*Total net position for governmental activities decreased by \$78,177.
- \*Total net position for business-type activities increased by \$261,468.

**BASIC FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Parowan City. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

**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 a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, with the differences between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year reported. All changes in net position 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 fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation is provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to facilitate this comparison between governmental funds and governmental activities.

The City maintains one major governmental funds, the general fund.

The City adopts an annual appropriated budget for all its general fund. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

The City maintains six proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the water, sewer, electric, garbage and irrigation utilities.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

**FINANCIAL ANALYSIS**

**Parowan City's Net Position**

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Current and other assets	\$ 1,168,043	410,035	4,788,687	4,639,464	5,956,730	5,049,499
Net capital assets	3,762,751	4,070,143	13,891,216	13,724,222	17,653,966	17,794,365
<b>Total assets</b>	<b><u>4,930,793</u></b>	<b><u>4,480,178</u></b>	<b><u>18,679,903</u></b>	<b><u>18,363,686</u></b>	<b><u>23,610,696</u></b>	<b><u>22,843,864</u></b>
Other liabilities	270,416	278,097	454,762	468,810	725,178	746,907
Long-term debt outstanding	-	38,645	9,848,396	9,779,600	9,848,396	9,818,245
Deferred inflow of resources	575,118	-	-	-	575,118	-
<b>Total liabilities</b>	<b><u>845,534</u></b>	<b><u>316,742</u></b>	<b><u>10,303,158</u></b>	<b><u>10,248,410</u></b>	<b><u>11,148,692</u></b>	<b><u>10,565,152</u></b>
Net position:						
Net investment in capital assets	3,762,751	4,031,498	4,042,819	3,944,622	7,805,570	7,976,120
Restricted	119,446	419,310	1,666,267	1,682,658	1,785,713	2,101,968
Unrestricted	203,062	(287,372)	2,667,659	2,487,997	2,870,722	2,200,625
<b>Total net position</b>	<b><u>\$ 4,085,259</u></b>	<b><u>4,163,436</u></b>	<b><u>8,376,745</u></b>	<b><u>8,115,276</u></b>	<b><u>12,462,004</u></b>	<b><u>12,278,712</u></b>

As noted above, net position may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities and deferred inflows of resources at the close of the year by \$12,462,004, an increase of \$183,292 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net position at the end of the year is \$2,870,722, which represents an increase of \$670,097 from the previous year. Unrestricted net position are those resources available to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other liabilities due, at year end, for goods and services acquired. Deferred inflow of resources represents property taxes that were unavailable in the current year.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the amount of debt that has been repaid during the year.

Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

**FINANCIAL ANALYSIS (continued)**

**Parowan City's Change in Net Position**

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
<b>Program revenues:</b>						
Charges for services	\$ 209,886	219,962	3,557,030	3,473,647	3,766,915	3,693,609
Operating grants	157,494	153,056	-	-	157,494	153,056
Capital grants	130,453	639,208	23,580	13,673	154,033	652,881
<b>General revenues:</b>						
Property taxes	694,519	682,520	-	-	694,519	682,520
Sales tax	333,502	345,752	-	-	333,502	345,752
Other taxes	82,762	59,769	-	-	82,762	59,769
Other revenues	61,013	218,932	16,649	15,811	77,662	234,743
<b>Total revenues</b>	<b><u>1,669,629</u></b>	<b><u>2,319,198</u></b>	<b><u>3,597,259</u></b>	<b><u>3,503,131</u></b>	<b><u>5,266,888</u></b>	<b><u>5,822,329</u></b>
<b>Expenses:</b>						
General government	678,219	691,138	-	-	678,219	691,138
Public safety	599,119	582,239	-	-	599,119	582,239
Highways and improvements	476,796	586,695	-	-	476,796	586,695
Parks and recreation	524,265	515,401	-	-	524,265	515,401
Interest on long-term debt	225	3,410	-	-	225	3,410
Water	-	-	402,640	325,388	402,640	325,388
Sewer collection	-	-	397,583	383,646	397,583	383,646
Electric	-	-	1,529,272	1,566,191	1,529,272	1,566,191
Sewer treatment	-	-	156,569	143,897	156,569	143,897
Pressurized Irrigation	-	-	143,407	113,916	143,407	113,916
Garbage	-	-	175,500	157,358	175,500	157,358
<b>Total expenses</b>	<b><u>2,278,624</u></b>	<b><u>2,378,882</u></b>	<b><u>2,804,972</u></b>	<b><u>2,690,396</u></b>	<b><u>5,083,596</u></b>	<b><u>5,069,278</u></b>
<b>Excess (deficiency)</b>						
<b>before transfers</b>	<b>(608,996)</b>	<b>(59,684)</b>	<b>792,287</b>	<b>812,735</b>	<b>183,292</b>	<b>753,051</b>
Transfers in (out)	530,819	308,640	(530,819)	(308,640)	-	-
<b>Change in net position</b>	<b><u>\$ (78,177)</u></b>	<b><u>248,956</u></b>	<b><u>261,468</u></b>	<b><u>504,095</u></b>	<b><u>183,292</u></b>	<b><u>753,051</u></b>

For the City as a whole, total revenues decreased by \$555,442 compared to the previous year, while total expenses increased by \$14,318. The total net change of \$183,292 is, in private sector terms, the net income for the year which is \$569,760 less than the previous year's net change (net income).

Governmental activities revenues of \$1,669,629 is \$649,570 less than the previous year. This decrease is primarily a result of a decrease in grant revenues compared to the previous year. Governmental activities expenses of \$2,278,624 is \$100,258 less than the previous year. While general government and highways and improvements expenses decreased during the year, public safety and parks and recreation expenses increased.

Business-type activities revenue of \$3,597,259 is \$94,128 more than the previous year. This is primarily due to an increase in revenues from charges for services. Business-type activities expenses of \$2,804,972 were more than the previous year by \$114,576. Decreased costs in the electric fund were more than offset by increased costs in the each of the other enterprise funds.

Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

**BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS**

Some of the more significant changes in fund balances and fund net assets and any restrictions on those amounts is described below:

*General Fund*

The fund balance of \$231,976 reflects an increase of \$206,315 from the previous year. Total revenues, excluding transfers in, amounted to \$1,705,429, representing a decrease of \$55,120 from the previous year. Total expenditures, excluding transfers out, amounted to \$2,006,771, representing a decrease of \$115,983 from the previous year. Net transfers of \$507,657 were transferred into the general fund.

Nonspendable fund balance for inventory amounts to \$22,678. Fund balance restricted for capital outlay is \$28,738. The unassigned fund balance amounts to \$180,560.

*Water Fund*

Net operating income for the year was \$131,629. The change in net position (net income) was \$55,293. Net position restricted for debt service and construction amounts to \$403,502 and \$194,752, respectively. Unrestricted net position amounts to \$555,999.

*Sewer Collection Fund*

Net operating income for the year was \$30,872. The change in net position (net income) was \$724,240. Net position restricted for debt service and construction is \$537,077 and \$266,855, respectively. Unrestricted net position amounts to \$137,369.

*Electric Fund*

Net operating income for the year was \$710,755. The change in net position (net income) was \$166,369. Net position restricted for debt service and construction is \$130,459 and \$133,623, respectively. Unrestricted net position amounts to \$1,785,574.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

General fund resources (excluding transfers in and appropriations of fund balance) for the year were originally budgeted at \$1,674,654. Subsequent amendments increase the total budgeted revenues to \$1,679,654. Actual revenues amounted to \$1,705,429. While the majority of the different forms of revenue exceeded budgeted amounts, intergovernmental, fines and forfeitures and miscellaneous revenues were less than budgeted. Actual transfers in were more than the budgeted amount of \$301,213 by \$229,606.

General fund expenditures (excluding transfers out) were originally budgeted in the amount of \$2,227,724, which was subsequently increased by amendment to \$2,232,724. Actual expenditures amounted to \$2,006,771. Spending within all departments was less than budgeted. Actual transfers out were less than the budgeted amount of \$125,000 by \$101,838.

Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Parowan City's Capital Assets (net of depreciation)**

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
<b>Capital Assets:</b>						
Land and rights	\$ 335,498	335,498	326,405	326,405	661,903	661,903
Buildings	1,399,615	1,399,615	95,051	95,051	1,494,666	1,494,666
Improvements	1,492,039	1,481,211	-	-	1,492,039	1,481,211
Water system	-	-	4,215,452	4,215,452	4,215,452	4,215,452
Sewer system	-	-	5,330,901	5,330,901	5,330,901	5,330,901
Electric system	-	-	7,242,130	7,242,130	7,242,130	7,242,130
Pressurized irrigation system	-	-	1,126,211	1,126,211	1,126,211	1,126,211
Machinery and equipment	679,881	718,953	1,090,966	1,057,876	1,770,847	1,776,829
Infrastructure	4,200,202	4,200,202	-	-	4,200,202	4,200,202
Construction in progress	40,000	40,000	744,460	-	784,460	40,000
<b>Total Capital Assets</b>	<b>8,147,235</b>	<b>8,175,479</b>	<b>20,171,575</b>	<b>19,394,025</b>	<b>28,318,809</b>	<b>27,569,504</b>
Less Accumulated Depreciation	<u>(4,384,484)</u>	<u>(4,105,335)</u>	<u>(6,280,359)</u>	<u>(5,669,803)</u>	<u>(10,664,843)</u>	<u>(9,775,139)</u>
<b>Net Capital Assets</b>	<b><u>\$ 3,762,751</u></b>	<b><u>4,070,143</u></b>	<b><u>13,891,216</u></b>	<b><u>13,724,222</u></b>	<b><u>17,653,966</u></b>	<b><u>17,794,365</u></b>

The total amount of capital assets at year-end, net of depreciation, amounts to \$17,653,966. This represents a decrease of \$140,399 from the previous year. The amount of decreases in capital asset balances, net of depreciation, represent the amount that depreciation charged on capital assets exceeded investment in new capital assets.

Governmental activities capital assets, net of depreciation, of \$3,762,751 has decreased a net amount of \$307,393 from the previous year. Total depreciation charged for the year on governmental activities assets was \$279,149.

Business-type activities capital assets, net of depreciation, of \$13,891,216 increased during the year by \$166,994. Total depreciation charged for business-type assets during the year was \$610,556.

Additional information regarding capital assets may be found in the notes to financial statements.

Parowan City  
**Management's Discussion and Analysis**  
June 30, 2013

**CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)**

**Parowan City's Outstanding Debt**

	Current Year	Previous Year
	<u>          </u>	<u>          </u>
<b>Governmental activities:</b>		
2010 Dodge Charger Lease	\$ -	19,484
2010 Dodge Ram Lease	-	19,161
<b>Total governmental</b>	<b><u>\$ -</u></b>	<b><u>38,645</u></b>
 <b>Business-type activities:</b>		
2009 Garbage Truck Lease	\$ 68,844	125,200
2010 Sewer Revenue	334,000	364,000
2001 Water Revenue	347,400	375,400
2005 Sewer Revenue	2,677,000	2,847,000
2011 Electric Refunding	-	3,817,000
2013 Electric Refunding	3,633,000	-
2008 Water Revenue	1,682,000	1,764,000
2010B Sewer Revenue (Collection)	110,880	116,880
2010B Sewer Revenue (Treatment)	335,273	370,120
2013 Parity Water Revenue	660,000	-
<b>Total business-type</b>	<b><u>\$ 9,848,396</u></b>	<b><u>9,779,600</u></b>
 <b>Total long-term debt</b>	<b><u>\$ 9,848,396</u></b>	<b><u>9,818,245</u></b>

Differences represent the amount of principal repaid during the year or the amount of new bonds issued.

Additional information regarding the long-term liabilities may be found in the notes to financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

No significant economic changes that would affect the City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Parowan City's finances for all those with an interest in the City's finances and to show the City's accountability for the money it receives. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Parowan City, PO Box 576, Parowan, Utah 84761.

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## **BASIC FINANCIAL STATEMENTS**

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Parowan City  
**STATEMENT OF NET POSITION**  
June 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 330,773	2,758,037	3,088,810
Accounts receivable, net	686,858	368,596	1,055,454
Inventory	22,678	-	22,678
Other assets	1,625	-	1,625
Total current assets	1,041,933	3,126,633	4,168,566
Non-current assets:			
Restricted cash and cash equivalents	126,109	1,662,054	1,788,164
Capital assets:			
Not being depreciated	375,498	1,070,865	1,446,363
Net of accumulated depreciation	3,387,253	12,820,351	16,207,604
Total non-current assets	3,888,860	15,553,270	19,442,130
<b>Total assets</b>	<b>\$ 4,930,793</b>	<b>18,679,903</b>	<b>23,610,696</b>
<b>LIABILITIES AND DEFERRED INFLOW OF RESOURCES:</b>			
Liabilities:			
Current Liabilities:			
Accounts payable	\$ 120,087	171,199	291,286
Accrued liabilities	150,330	13,236	163,565
Accrued interest payable	-	92,742	92,742
Compensated absences	-	58,281	58,281
Customer deposits	-	119,303	119,303
Capital leases, due within one year	-	58,799	58,799
Revenue bonds, due within one year	-	576,000	576,000
Total current liabilities	270,416	1,089,560	1,359,977
Non-current liabilities:			
Capital leases, due after one year	-	10,045	10,045
Revenue bonds, due after one year	-	9,203,553	9,203,553
Total non-current liabilities	-	9,213,598	9,213,598
Total liabilities	270,416	10,303,158	10,573,574
Deferred inflow of resources	575,118	-	575,118
<b>NET POSITION:</b>			
Net investment in capital assets	3,762,751	4,042,819	7,805,570
Restricted:			
Construction	28,738	595,229	623,967
Debt service	-	1,071,037	1,071,037
Perpetual care	90,708	-	90,708
Unrestricted	203,062	2,667,659	2,870,722
<b>Total net position</b>	<b>4,085,259</b>	<b>8,376,745</b>	<b>12,462,004</b>
<b>Total liabilities, deferred inflow of resources, and net position</b>	<b>\$ 4,930,793</b>	<b>18,679,903</b>	<b>23,610,696</b>

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

Parowan City  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2013

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue (To Next Page)</u>
<b><u>FUNCTIONS/PROGRAMS:</u></b>					
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 678,219	129,239	-	43,891	(505,089)
Public safety	599,119	922	5,408	39,299	(553,490)
Highways and public improvements	476,796	-	152,086	11,000	(313,709)
Parks, recreation and public property	524,265	79,725	-	36,263	(408,277)
Interest on long-term debt	225	-	-	-	(225)
<b>Total governmental activities</b>	<b><u>2,278,624</u></b>	<b><u>209,886</u></b>	<b><u>157,494</u></b>	<b><u>130,453</u></b>	<b><u>(1,780,791)</u></b>
Business-type activities:					
Water	402,640	488,696	-	7,386	93,442
Sewer collection	397,583	338,434	-	5,571	(53,578)
Electric	1,529,272	2,105,422	-	9,873	586,022
Sewer treatment	156,569	281,827	-	(900)	124,358
Pressurized irrigation	143,407	150,912	-	1,650	9,155
Garbage	175,500	191,739	-	-	16,239
<b>Total business-type activities</b>	<b><u>2,804,972</u></b>	<b><u>3,557,030</u></b>	<b><u>-</u></b>	<b><u>23,580</u></b>	<b><u>775,638</u></b>
<b>Total primary government</b>	<b><u>\$ 5,083,596</u></b>	<b><u>3,766,915</u></b>	<b><u>157,494</u></b>	<b><u>154,033</u></b>	<b><u>(1,005,153)</u></b>

(The statement of activities continues on following page)

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

Parowan City  
**STATEMENT OF ACTIVITIES (continued)**  
For the Year Ended June 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>CHANGES IN NET POSITION:</b>			
<b>Net (expense) revenue (from previous page)</b>	<b><u>\$ (1,780,791)</u></b>	<b><u>775,638</u></b>	<b><u>(1,005,153)</u></b>
<b>General revenues:</b>			
Property taxes	694,519	-	694,519
Sales tax	333,502	-	333,502
Other taxes	82,762	-	82,762
Unrestricted investment earnings	17,045	13,749	30,795
Miscellaneous	<u>43,967</u>	<u>2,900</u>	<u>46,867</u>
<b>Total general revenues</b>	<b>1,171,796</b>	<b>16,649</b>	<b>1,188,445</b>
Transfers in (out)	<u>530,819</u>	<u>(530,819)</u>	<u>-</u>
<b>Total general revenues and transfers</b>	<b><u>1,702,615</u></b>	<b><u>(514,169)</u></b>	<b><u>1,188,445</u></b>
<b>Change in net position</b>	<b>(78,177)</b>	<b>261,468</b>	<b>183,292</b>
Net position - beginning	4,163,436	8,205,649	12,369,085
Restatement of net position for GASB 65	<u>-</u>	<u>(90,373)</u>	<u>(90,373)</u>
<b>Net position - ending</b>	<b><u>\$ 4,085,259</u></b>	<b><u>8,376,745</u></b>	<b><u>12,462,004</u></b>

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

Parowan City  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 324,597	6,176	330,773
Receivables:			
Customer accounts, net	1,288	-	1,288
Due from other governments	685,570	-	685,570
Inventory	22,678	-	22,678
Other assets	1,458	167	1,625
Restricted cash and cash equivalents	35,568	90,542	126,109
<b>TOTAL ASSETS</b>	<b>\$ 1,071,159</b>	<b>96,884</b>	<b>1,168,043</b>
 <b>LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>			
Liabilities:			
Accounts payable	\$ 113,735	6,351	120,087
Accrued liabilities	150,330	-	150,330
Deferred inflow of resources	575,118	-	575,118
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b>839,183</b>	<b>6,351</b>	<b>845,534</b>
 <b>FUND BALANCES:</b>			
Nonspendable:			
Inventory	22,678	-	22,678
Restricted for:			
Class C Roads	-	-	-
Capital outlay	28,738	-	28,738
Perpetual care	-	90,708	90,708
Assigned for:			
Capital projects	-	(176)	(176)
Unassigned	180,560	-	180,560
<b>TOTAL FUND BALANCES</b>	<b>231,976</b>	<b>90,533</b>	<b>322,508</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,071,159</b>	<b>96,884</b>	<b>1,168,043</b>

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

Parowan City  
**STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
 For the Year Ended June 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Property	\$ 694,519	-	694,519
Sales	333,502	-	333,502
Other taxes	82,762	-	82,762
Licenses and permits	15,455	-	15,455
Intergovernmental revenues	284,385	-	284,385
Charges for services	80,657	-	80,657
Fines and forfeitures	113,774	-	113,774
Interest income	17,007	38	17,045
Miscellaneous revenue	79,806	-	79,806
<b>Total revenues</b>	<b>1,701,867</b>	<b>38</b>	<b>1,701,905</b>
<b>EXPENDITURES:</b>			
General government	668,146	-	668,146
Public safety	576,419	-	576,419
Streets and public works	218,830	22,085	240,915
Parks, recreation and public property	491,444	47	491,492
Capital outlay	13,060	16,813	29,873
Debt service:			
Principal	38,645	-	38,645
Interest	225	-	225
<b>Total expenditures</b>	<b>2,006,771</b>	<b>38,945</b>	<b>2,045,716</b>
<b>Excess (Deficiency) of Revenues over (Under) Expenditures</b>	<b>(304,904)</b>	<b>(38,907)</b>	<b>(343,811)</b>
<b>Other Financing Sources and (Uses):</b>			
Impact fees	3,562	-	3,562
Sales of capital assets	-	-	-
Transfers in	530,819	23,162	553,981
Transfers (out)	(23,162)	-	(23,162)
<b>Total other financing sources and (uses)</b>	<b>511,219</b>	<b>23,162</b>	<b>534,381</b>
<b>Net Change in Fund Balances</b>	<b>206,315</b>	<b>(15,744)</b>	<b>190,570</b>
Fund balances - beginning	25,661	106,277	131,938
<b>Fund balances - end of year</b>	<b>\$ 231,976</b>	<b>90,533</b>	<b>322,508</b>

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

Parowan City  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION**  
June 30, 2013

<b>Total Fund Balances for Governmental Funds</b>	<b><u>\$ 322,508</u></b>
Total net position reported for governmental activities in the statement is different because:	
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.	
Capital assets, at cost	8,147,235
Less accumulated depreciation	<u>(4,384,484)</u>
<b>Net capital assets</b>	<b><u>3,762,751</u></b>
<b>Total Net Position of Governmental Activities</b>	<b><u><u>\$ 4,085,259</u></u></b>

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

Parowan City  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2013

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b><u>\$ 190,570</u></b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.</p>	
Capital outlays	29,873
Depreciation expense	<u>(301,427)</u>
<b>Net</b>	<b><u>(271,554)</u></b>
<p>Retirement of fixed assets reduces the total fixed assets in the statement of net position, however, no expenditure or revenue is recognized in the fund statement.</p>	
<b>Book cost of retired assets</b>	<b><u>(35,839)</u></b>
<p>Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
<b>Long-term debt principal repayments</b>	<b><u>38,645</u></b>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ (78,177)</u></u></b>

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

Parowan City  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
June 30, 2013

	Water Fund	Sewer Collection Fund	Electric Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>ASSETS:</b>					
Current assets:					
Cash and cash equivalents	\$ 583,731	194,452	1,852,023	127,831	2,758,037
Accounts receivable, net	66,390	3,342	201,936	96,928	368,596
Total current assets	<u>650,121</u>	<u>197,794</u>	<u>2,053,960</u>	<u>224,758</u>	<u>3,126,633</u>
Non-current assets:					
Restricted cash and cash equivalents	605,197	803,932	252,926	-	1,662,054
Capital assets:					
Not being depreciated	824,614	111,738	123,795	10,717	1,070,865
Net of accumulated depreciation	2,548,898	3,933,430	5,279,838	1,058,185	12,820,351
Total non-current assets	<u>3,978,709</u>	<u>4,849,100</u>	<u>5,656,559</u>	<u>1,068,901</u>	<u>15,553,270</u>
<b>Total assets</b>	<b><u>\$ 4,628,830</u></b>	<b><u>5,046,894</u></b>	<b><u>7,710,519</u></b>	<b><u>1,293,660</u></b>	<b><u>18,679,903</u></b>
<b>LIABILITIES:</b>					
Current liabilities:					
Accounts payable	\$ 57,368	5,250	100,305	21,511	184,435
Accrued interest payable	35,925	50,459	6,358	-	92,742
Compensated absences	7,772	4,716	31,264	14,529	58,281
Customer deposits	-	-	119,303	-	119,303
Capital leases, current portion	-	-	-	58,799	58,799
Revenue bonds, current portion	113,000	212,000	232,000	19,000	576,000
Total current liabilities	<u>214,065</u>	<u>272,425</u>	<u>489,231</u>	<u>113,839</u>	<u>1,089,560</u>
Non-current liabilities:					
Capital leases, long-term	-	-	-	10,045	10,045
Revenue bonds, long-term	2,576,400	2,909,880	3,401,000	316,273	9,203,553
Total non-current liabilities	<u>2,576,400</u>	<u>2,909,880</u>	<u>3,401,000</u>	<u>326,318</u>	<u>9,213,598</u>
<b>Total liabilities</b>	<b><u>2,790,465</u></b>	<b><u>3,182,305</u></b>	<b><u>3,890,231</u></b>	<b><u>440,157</u></b>	<b><u>10,303,158</u></b>
<b>NET POSITION:</b>					
Net investment in capital assets	684,113	923,288	1,770,633	664,785	4,042,819
Restricted for:					
Debt service	403,502	537,077	130,459	-	1,071,037
Construction	194,752	266,855	133,623	-	595,229
Unrestricted	555,999	137,369	1,785,574	188,718	2,667,659
<b>Total net position</b>	<b><u>1,838,365</u></b>	<b><u>1,864,589</u></b>	<b><u>3,820,288</u></b>	<b><u>853,503</u></b>	<b><u>8,376,745</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 4,628,830</u></b>	<b><u>5,046,894</u></b>	<b><u>7,710,519</u></b>	<b><u>1,293,660</u></b>	<b><u>18,679,903</u></b>

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

Parowan City  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION - PROPRIETARY FUNDS**  
For the Year Ended June 30, 2013

	Water Fund	Sewer Collection Fund	Electric Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>Operating income:</b>					
Charges for sales and service	\$ 483,338	337,034	1,887,622	624,028	3,332,021
Other operating income	1,208	150	213,140	450	214,948
<b>Total operating revenue</b>	<b><u>484,546</u></b>	<b><u>337,184</u></b>	<b><u>2,100,762</u></b>	<b><u>624,478</u></b>	<b><u>3,546,970</u></b>
<b>Operating expenses:</b>					
Personal services	90,409	59,767	414,960	204,322	769,457
Cost of sales	-	-	615,374	-	615,374
Utilities	26,880	1,857	11,930	26,234	66,901
Operating and maintenance	23,007	11,075	51,571	102,176	187,828
Insurance	16,575	3,651	17,442	10,954	48,622
Other supplies and expenses	48,693	37,390	82,068	53,589	221,740
Depreciation expense	147,354	192,571	196,662	73,969	610,556
<b>Total operating expense</b>	<b><u>352,917</u></b>	<b><u>306,312</u></b>	<b><u>1,390,006</u></b>	<b><u>471,243</u></b>	<b><u>2,520,478</u></b>
<b>Net operating income (loss)</b>	<b><u>131,629</u></b>	<b><u>30,872</u></b>	<b><u>710,755</u></b>	<b><u>153,235</u></b>	<b><u>1,026,491</u></b>
<b>Non-operating income (expense):</b>					
Impact fees	7,386	5,571	9,873	750	23,580
Connection fees	4,150	1,250	4,660	-	10,060
Interest income	5,121	6,853	1,776	-	13,749
Interest on long-term debt	(49,723)	(91,271)	(139,266)	(4,234)	(284,493)
Gain on sale of fixed assets	-	2,900	-	-	2,900
<b>Total non-operating income (expense)</b>	<b><u>(33,066)</u></b>	<b><u>(74,697)</u></b>	<b><u>(122,957)</u></b>	<b><u>(3,484)</u></b>	<b><u>(234,204)</u></b>
<b>Income (loss) before transfers</b>	<b><u>98,563</u></b>	<b><u>(43,825)</u></b>	<b><u>587,798</u></b>	<b><u>149,751</u></b>	<b><u>792,287</u></b>
Net transfers - in (out)	(43,270)	768,065	(421,429)	(834,185)	(530,819)
<b>Change in net position</b>	<b><u>55,293</u></b>	<b><u>724,240</u></b>	<b><u>166,369</u></b>	<b><u>(684,434)</u></b>	<b><u>261,468</u></b>
Net position, beginning	1,804,157	1,140,349	3,723,208	1,537,937	8,205,650
Restatement of net position for GASB 65	(21,085)	-	(69,289)	-	(90,374)
<b>Net position, ending</b>	<b><u>\$ 1,838,365</u></b>	<b><u>1,864,589</u></b>	<b><u>3,820,288</u></b>	<b><u>853,503</u></b>	<b><u>8,376,745</u></b>

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

Parowan City  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2013

	Water Fund	Sewer Collection Fund	Electric Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>Cash flows from operating activities:</b>					
Cash received from customers - service	\$ 478,762	338,711	2,097,913	627,073	3,542,459
Cash paid to suppliers	(78,903)	(131,020)	(762,516)	(191,190)	(1,163,629)
Cash paid to employees	(89,218)	(59,830)	(411,936)	(200,584)	(761,567)
<b>Net cash provided (used) in operating activities</b>	<b><u>310,641</u></b>	<b><u>147,862</u></b>	<b><u>923,461</u></b>	<b><u>235,300</u></b>	<b><u>1,617,263</u></b>
<b>Cash flows from noncapital financing activities:</b>					
Increase (decrease) in security deposits	-	-	250	-	250
Net interfund activity	(43,270)	768,065	(421,429)	(849,343)	(545,977)
<b>Net cash provided (used) in noncapital financing activities</b>	<b><u>(43,270)</u></b>	<b><u>768,065</u></b>	<b><u>(421,179)</u></b>	<b><u>(849,343)</u></b>	<b><u>(545,727)</u></b>
<b>Cash flows from capital and related financing activities:</b>					
Cash from bond issues	660,000	-	3,879,000	-	4,539,000
Cash from connection and impact fees	11,536	6,821	14,533	750	33,640
Cash payments for capital assets	(653,098)	-	(124,452)	-	(777,550)
Cash payments for long-term debt	(110,000)	(206,000)	(4,063,000)	(91,204)	(4,470,204)
Cash payments for long-term debt interest	(51,704)	(94,673)	(132,908)	(4,234)	(283,518)
<b>Net cash provided (used) in capital and related financing activities</b>	<b><u>(143,265)</u></b>	<b><u>(290,952)</u></b>	<b><u>(426,827)</u></b>	<b><u>(94,687)</u></b>	<b><u>(955,732)</u></b>
<b>Cash flows from investing activities:</b>					
Cash received from interest earned	5,121	6,853	1,776	-	13,749
<b>Net cash provided (used) in investing activities</b>	<b><u>5,121</u></b>	<b><u>6,853</u></b>	<b><u>1,776</u></b>	<b><u>-</u></b>	<b><u>13,749</u></b>
<b>Net increase (decrease) in cash</b>	<b>129,226</b>	<b>631,828</b>	<b>77,231</b>	<b>(708,730)</b>	<b>129,555</b>
Cash balance, beginning	1,059,702	366,556	2,027,718	836,561	4,290,537
<b>Cash balance, ending</b>	<b><u>\$ 1,188,928</u></b>	<b><u>998,384</u></b>	<b><u>2,104,949</u></b>	<b><u>127,831</u></b>	<b><u>4,420,091</u></b>
<b>Cash reported on the balance sheet:</b>					
Cash and cash equivalents	\$ 583,731	194,452	1,852,023	127,831	2,758,037
Non-current restricted cash	605,197	803,932	252,926	-	1,662,054
<b>Total cash and cash equivalents</b>	<b><u>\$ 1,188,928</u></b>	<b><u>998,384</u></b>	<b><u>2,104,949</u></b>	<b><u>127,831</u></b>	<b><u>4,420,091</u></b>

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

Parowan City  
**STATEMENT OF CASH FLOWS (continued)**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2013

**Reconciliation of Operating Income to Net  
Cash Provided (Used) in Operating Activities:**

	Water Fund	Sewer Collection Fund	Electric Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>Net operating income (loss)</b>	<b>\$ 131,629</b>	<b>30,872</b>	<b>710,755</b>	<b>153,235</b>	<b>1,026,491</b>
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:					
Depreciation and amortization	147,354	192,571	196,662	73,969	610,556
Changes in assets and liabilities:					
(Increase) decrease in receivables	(5,784)	1,527	(2,849)	2,596	(4,510)
(Increase) decrease in prepaid items	-	-	-	-	-
Increase (decrease) in payables	36,251	(77,046)	15,869	1,974	(22,952)
Increase (decrease) in compensated absences	1,190	(63)	3,024	3,527	7,679
<b>Net cash provided (used) in operating activities</b>	<b><u>\$ 310,641</u></b>	<b><u>147,862</u></b>	<b><u>923,461</u></b>	<b><u>235,300</u></b>	<b><u>1,617,263</u></b>

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

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1-A. Reporting entity**

Parowan City (the City), a municipal corporation located in Iron County, Utah, operates under a Mayor-Council form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable because of the significance of their operational or financial relationships with the City.

The City has no component units and is not a component unit of another entity.

**1-B. Government-wide and fund financial statements**

*Government-wide Financial Statements*

The government-wide financial statements, consisting of the statement of net position and the statement of changes in net position report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental 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 net position reports the financial position of the governmental and business-type activities of the City and its discretely presented component units at year-end.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege 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*.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, 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 statement.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP).

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**1-C. Measurement focus, basis of accounting and financial statement presentation (continued)**

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments or payments to the general fund by other funds for providing administrative and billing services for such funds. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are 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. 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.

Property taxes, sales taxes, intergovernmental revenues, and interest 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. Only the portion of special assessments, if any, receivable 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 government.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating income and expense reported in proprietary fund financial statements include those revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**1-D. Fund types and major funds**

*Governmental funds*

**The City 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, except those required to be accounted for in another fund.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
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**1-D. Fund types and major funds (continued)**

**The City reports the following as nonmajor governmental funds:**

The *capital projects airport development fund* is used to account for the acquisition or construction of major capital facilities relating to the development of the City airport.

The *capital projects heritage park fund* is used to account for the acquisition or construction of major capital facilities relating to the Heritage Park.

The *capital projects recreation complex fund* is used to account for the acquisition or construction of major capital facilities relating to the recreation complex.

The *capital projects community theater fund* is used to account for the acquisition or construction of major capital facilities relating to the community theater.

The *community theater permanent fund* accounts for money received for upkeep of the community theater.

The *cemetery perpetual care permanent fund* accounts for money received for upkeep and perpetual care of cemetery plots.

*Proprietary funds*

**The City reports the following major proprietary funds:**

The *water fund* is used to account for the activities of the culinary water production, treatment and distribution.

The *sewer collection fund* is used to account for the activities of the sewer collection operations.

The *electric fund* is used to account for the activities of the electric power distribution operations.

The *sewer treatment fund, garbage fund and pressurized irrigation fund* are reported as nonmajor proprietary funds.

**1-E. Assets, Liabilities, and Net Position or Equity**

**1-E-1. Deposit and Investments**

All of the City's deposits are in demand deposit accounts or in accounts with the Utah Public Treasurers Investments Fund. Deposits are reported at cost, which approximates fair value. Additional information is contained in Note 3.

**1-E-2. Cash and Cash Equivalents**

The City'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.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
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**1-E. Assets, Liabilities, and Net Position or Equity (continued)**

**1-E-3. *Receivables and Payables***

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are reported net of any allowance for uncollectible accounts. Due to the nature of the accounts receivable in governmental type activities and the proprietary funds, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented other than in the Electric fund, which has an allowance for uncollectibles of \$25,745.

During the course of operations, there may be transactions that occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either *due to or due from other funds*.

Property taxes are assessed and collected for the City by Iron County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

**1-E-4. *Restricted Assets***

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted net position on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net position.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash.

**1-E-5. *Inventories and Prepaid items***

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

**1-E-6. *Capital Assets***

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2013

**1-E. Assets, Liabilities, and Net Position or Equity (continued)**

**1-E-6. Capital Assets (continued)**

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives. Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years	Assets	Years
Utility Systems	40	Infrastructure	20-40
Buildings	40	Machinery & equipment	5-10

**1-E-7. Long-term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period.

**1-E-8. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as incurred.

**1-E-9. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not currently have any deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes include a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has only one type of deferred inflow of resources. Property taxes to be collected in November were unavailable in the current fiscal year. Accordingly, these property taxes are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**1-E. Assets, Liabilities, and Net Position or Equity (continued)**

**1-E-10. Net position flow assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**1-E-11. Fund balance flow assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**1-E-12. Fund balance policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the City Manager to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**1-E. Assets, Liabilities, and Net Position or Equity (continued)**

**1-E-13. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

**1-E-14. Restatement of net position**

The beginning Water and Electric net positions have been restated to reflect the implementation of GASB Statements No. 63 and No. 65 which reclassify bond issuance costs as current period outflows of resources. The adjustment reduces the beginning net position balance of these funds by \$21,085 and \$69,289, respectively. The beginning net position for these funds is restated on both the fund financial statements and the government-wide financial statements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**2-A. Budgetary data**

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City Council on or before June 22 for the following fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the City's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unassigned General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received to meet emergency expenditures, and to cover unanticipated deficits. Any unassigned General Fund balance greater than 25% of the next year's budgeted revenues must be appropriated within the following years.

Once adopted, budget amendments which increase total expenditures must be approved by the City Council following a public hearing. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

**2-B. Deficit fund equity**

As of June 30, 2013, the capital projects fund, a non-major fund, has a deficit fund balance of \$5,683. This deficit is a result of expenses exceeding prior year appropriated fund balance. This deficit will be eliminated in future years as resources in the general fund set aside for capital improvements are transferred to the capital projects fund.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 3 - DETAILED NOTES**

**3-A. Deposits and investments**

Cash and investments as of June 30, 2013 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 200
Deposits in bank	253,413
Deposits - State Treasurer's Investment Pool	<u>4,623,360</u>
<b>Total cash</b>	<b><u>\$ 4,876,974</u></b>

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

Cash and cash equivalents (current)	\$ 3,088,810
Restricted cash and cash equivalents (non-current)	<u>1,788,164</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 4,876,974</u></b>

Cash deposits are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city 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 the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. 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 on 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. The City maintains monies not immediately needed for expenditure in PTIF accounts.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**3-A. Deposits and investments (continued)**

**Deposit and Investment Risk**

The City maintains no investment policy containing any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The City's compliance with the provisions of UMMA addresses each of these risks.

**Interest rate risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Most deposits of the City are kept in bank demand deposits or PTIF accounts and are available immediately.

**Credit risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligations. As noted on the previous page, PTIF is unrated.

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. At June 30, 2013, all of the City's demand deposits are covered by FDIC insurance.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City views its placements of moneys in PTIF as deposits, however, this risk is addressed through the policy of investing most excess monies in PTIF accounts.

**Concentration of credit risk**

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

**3-B. Receivables**

The allowance policy is described in Note 1-E-3. Receivables as of June 30, 2013 for the City's funds are shown below:

	General Fund	Water Fund	Sewer Collection Fund	Electric Fund	Nonmajor Enterprise Funds	Total
Intergovernmental	\$ 685,570	-	-	-	-	685,570
Customers	1,288	66,390	3,342	227,681	96,928	395,629
Less: Allowance for uncollectibles	-	-	-	(25,745)	-	(25,745)
<b>Total receivables</b>	<b><u>\$ 686,858</u></b>	<b><u>66,390</u></b>	<b><u>3,342</u></b>	<b><u>201,936</u></b>	<b><u>96,928</u></b>	<b><u>1,055,454</u></b>

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
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**3-C. Capital Assets**

Capital asset activity for the governmental activities was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and rights	\$ 335,498	-	-	335,498
Construction in progress	40,000	-	-	40,000
<b>Total capital assets, not being depreciated</b>	<b><u>375,498</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>375,498</u></b>
Capital assets, being depreciated:				
Buildings	1,399,615	-	-	1,399,615
Improvements other than buildings	1,481,211	10,828	-	1,492,039
Machinery and equipment	500,673	19,045	-	519,718
Vehicles	218,280	-	58,117	160,163
Infrastructure	4,200,202	-	-	4,200,202
<b>Total capital assets, being depreciated</b>	<b><u>7,799,981</u></b>	<b><u>29,873</u></b>	<b><u>58,117</u></b>	<b><u>7,771,737</u></b>
Less accumulated depreciation for:				
Buildings	699,491	23,790	-	723,282
Improvements other than buildings	410,009	58,348	-	468,357
Machinery and equipment	418,653	25,684	-	444,338
Vehicles	153,360	14,909	22,278	145,991
Infrastructure	2,423,822	178,695	-	2,602,517
<b>Total accumulated depreciation</b>	<b><u>4,105,335</u></b>	<b><u>301,427</u></b>	<b><u>22,278</u></b>	<b><u>4,384,484</u></b>
<b>Total capital assets being depreciated, net</b>	<b><u>3,694,645</u></b>	<b><u>(271,554)</u></b>	<b><u>35,839</u></b>	<b><u>3,387,253</u></b>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 4,070,143</u></b>	<b><u>(271,554)</u></b>	<b><u>35,839</u></b>	<b><u>3,762,751</u></b>

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

<b>Governmental activities:</b>	
General government	\$ 10,073
Public safety	22,700
Highways and public improvements	235,880
Parks, recreation and public property	32,774
<b>Total</b>	<b><u>\$ 301,427</u></b>

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**3-C. Capital assets (continued)**

Capital asset activity for business-type activities was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land and water shares	\$ 326,405	-	-	326,405
Construction in progress	-	744,460	-	744,460
<b>Total capital assets, not being depreciated</b>	<b><u>326,405</u></b>	<b><u>744,460</u></b>	<b><u>-</u></b>	<b><u>1,070,865</u></b>
Capital assets, being depreciated:				
Buildings and improvements	95,051	-	-	95,051
Water distribution system	4,215,452	-	-	4,215,452
Sewer collection system	5,330,901	-	-	5,330,901
Electric distribution system	7,242,130	-	-	7,242,130
Pressurized irrigation system	1,126,211	-	-	1,126,211
Machinery and equipment	780,208	-	-	780,208
Vehicles	277,668	33,090	-	310,758
<b>Total capital assets, being depreciated</b>	<b><u>19,067,620</u></b>	<b><u>33,090</u></b>	<b><u>-</u></b>	<b><u>19,100,710</u></b>
Less accumulated depreciation for:				
Buildings and improvements	57,339	3,951	-	61,290
Water distribution system	1,541,041	140,791	-	1,681,832
Sewer collection system	784,325	200,249	-	984,573
Electric distribution system	1,878,353	176,402	-	2,054,755
Pressurized irrigation system	584,015	23,203	-	607,218
Machinery and equipment	556,447	59,180	-	615,627
Vehicles	268,284	6,781	-	275,064
<b>Total accumulated depreciation</b>	<b><u>5,669,803</u></b>	<b><u>610,556</u></b>	<b><u>-</u></b>	<b><u>6,280,359</u></b>
<b>Total capital assets being depreciated, net</b>	<b><u>13,397,817</u></b>	<b><u>(577,466)</u></b>	<b><u>-</u></b>	<b><u>12,820,351</u></b>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 13,724,222</u></b>	<b><u>166,994</u></b>	<b><u>-</u></b>	<b><u>13,891,216</u></b>

Depreciation expense was charged to functions/programs of the primary government business-type activities as follows:

<b>Business-type activities:</b>	
Water	\$ 147,354
Sewer	203,400
Electric	196,662
Solid waste	38,925
Pressurized irrigation	<u>24,215</u>
<b>Total</b>	<b><u>\$ 610,556</u></b>

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**3-D. Long-term debt**

Governmental long-term debt activity was as follows:

	Original Principal	%	6/30/2012	Additions	Reductions	6/30/2013	Due Within One Year
<b><u>Governmental activities:</u></b>							
2010 Dodge Charger Lease Matures 12/1/2015	\$ 29,302	7.00	\$ 19,484	-	19,484	-	-
2010 Dodge Ram Lease Matures 12/1/2015	28,815	7.00	19,161	-	19,161	-	-
<b>Total governmental activity long-term liabilities</b>			<b><u>\$38,645</u></b>	<b><u>-</u></b>	<b><u>38,645</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

Business-type long-term debt activity was as follows:

	Original Principal	%	6/30/2012	Additions	Reductions	6/30/2013	Due Within One Year
<b><u>Business-type activities:</u></b>							
2009 Garbage Truck Lease Matures 8/20/2014	\$ 272,473	4.25	\$ 125,200	-	56,356	68,844	58,799
2010 Sewer Revenue Matures 1/1/2022	421,000	4.50	364,000	-	30,000	334,000	31,000
2001 Water Revenue Matures 1/1/2023	578,400	4.14	375,400	-	28,000	347,400	29,000
2005 Sewer Revenue Matures 12/1/2026	3,772,000	2.75	2,847,000	-	170,000	2,677,000	175,000
2013 Electric Revenue Refunding Matures 5/1/2027	3,879,000	2.823	-	3,879,000	246,000	3,633,000	232,000
2011 Electric Refunding Matures 5/1/2028	4,033,000	3.05	3,817,000	-	3,817,000	-	-
2008 Water Revenue Matures 8/31/2029	1,923,000	2.05	1,764,000	-	82,000	1,682,000	84,000
2010 B Sewer Revenue (Collection) Matures 11/1/2030	122,880	-	116,880	-	6,000	110,880	6,000
2010 B Sewer Revenue (Treatment) Matures 11/1/2030	389,120	-	370,120	-	34,847	335,273	19,000
2013 Parity Water Revenue Matures 1/1/2044	660,000	3.28	-	660,000	-	660,000	-
<b>Total business-type activity long-term liabilities</b>			<b><u>\$9,779,600</u></b>	<b><u>4,539,000</u></b>	<b><u>4,470,203</u></b>	<b><u>9,848,397</u></b>	<b><u>634,799</u></b>

All revenue bonds are secured by the revenues of the water, electric or sewer systems.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**3-D. Long-term debt (continued)**

Debt service requirements to maturity for business-type activities are as follows:

	Principal	Interest	Total
2014	\$ 634,799	177,449	812,248
2015	608,045	189,194	797,239
2016	612,000	181,427	793,427
2017	624,000	172,625	796,625
2018	641,000	162,798	803,798
2019 - 2023	3,391,400	638,321	4,029,721
2024 - 2028	2,617,000	275,189	2,892,189
2029 - 2033	402,153	70,409	472,562
2034 - 2038	130,000	43,952	173,952
2039 - 2043	154,000	20,992	174,992
2044 - 2044	34,000	1,115	35,115
<b>Total</b>	<b>\$9,848,397</b>	<b>1,933,472</b>	<b>11,781,868</b>

**Advance Refunding**

The City issued \$3,879,00 in electric system revenue bonds with an interest rate of .98% to 3.95%. The proceeds were used to advance refund \$3,817,000 of the 2011 Electric Revenue bonds which had an interest rate of 3.05%. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2011 Electric Revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The City advanced refunded the 2011 Electric Revenue bonds to reduce its total debt service payments over 15 years by \$74,395 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$49,552.

**3-E. Capital Lease**

The City leases a garbage truck which is reported as a capital lease. The cost of the asset at acquisition was \$272,473. Depreciation accumulated since acquisition amounts to \$155,699, leaving the carrying value at June 30, 2013 in the amount of \$116,774.

The lease requires monthly payments of \$5,049 with related interest at 4.25%.

The scheduled payments are as follows:

	Principal	Interest	Total
2014	\$ 58,799	1,791	60,590
2015	10,045	53	10,098
<b>Total</b>	<b>\$ 68,844</b>	<b>1,844</b>	<b>70,688</b>

Lease payments are included in the schedule of long-term debt in Note 3-D.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2013

**3-F. Interfund Balances and Transfers**

During the year the following net transfers were made between funds:

	Transfers In	Transfers Out
General fund	\$ 530,819	23,162
Capital improvement fund	22,210	-
Recreation complex fund	952	-
Water fund	-	43,270
Sewer collection fund	785,000	16,935
Electric fund	-	421,429
Sewer treatment fund	-	805,697
Solid waste fund	-	13,488
Irrigation fund	-	15,000
<b>Total</b>	<b>\$ 1,338,981</b>	<b>1,338,981</b>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 4 - OTHER INFORMATION**

**4-A. 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; and natural disasters. The City's participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

**4-B. Employee pension and other benefit plans**

**Plan Description:**

Parowan City contributes to the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employees with (without) Social Security Coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement System (the Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the System and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**4-B. Employee pension and other benefit plans (continued)**

**Funding Policy:**

Plan members in the Local Governmental Contributory Retirement System are required to contribute 6% of their annual covered salary (all or part may be paid by the employer for the employee) and Parowan City is required to contribute 7.77% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, the City is required to contribute 16.04% of their annual covered salary. In the Public Safety Retirement System, the City is required to contribute 30.45% of their annual covered salary. The contribution rates are actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City's contributions to the Systems for the years ending June 30, 2013, 2011, and 2010 were: to the Local Governmental Contributory Retirement System, \$0, \$0 and \$4,804, respectively; to the Noncontributory Retirement System, \$130,878, \$117,360 and \$93,618, respectively; and to the Public Safety Noncontributory Retirement System, \$35,969, \$34,172 and \$28,135, respectively. The contributions were equal to the required contributions for each year.

**IRC Code Section 401k Plan:**

The City participates in a 401k plan offered through the Utah State Retirement System. The contributions for the years ended June 30, 2013, 2012, and 2011, were \$16,930, \$21,749, and \$18,955, respectively. The contributions were equal to the required contributions for each year.

**4-C. Iron County Sublease-Purchase Agreement**

Parowan City has subleased the Iron County Fairgrounds project on an annually renewable basis pursuant to the terms of a sublease-purchase agreement with Iron County.

The agreement calls for the City to make payments limited to City funds and that payments made will constitute a current expense of the City. No provision of the agreement shall be construed or interpreted as creating a general obligation or other indebtedness of the City within the meaning of any constitutional or statutory debt limitation.

It is the intent of the City to make lease payments for the term of the bonds issued by Iron County. The term of the bonds is 20 years and if payments are made over the term of the bonds, the investment by the City would approximate \$421,878.

**4-D. Adoption of new accounting principles**

Implementation of GASB Statements No. 63 and No. 65 - In fiscal year 2013, the City implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. These statements provide financial reporting guidelines to standardize the presentation of deferred outflows of resources and deferred inflow of resources and their effects on a government's net position, and the establishment of accounting and financial reporting standards that reclassify, as deferred inflows and outflows of resources, items that were previously reported as assets and liabilities. In addition, there are numerous terminology changes throughout the financial section of this report. These classification changes resulted in a prior period adjustment as described in Note 1-E-14.

Parowan City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**4-E. Power Sales and Purchase Contract**

Parowan City has entered into a Power Sales Contract (Contract) which expires in June 2027, to purchase approximately 0.364% of the output of the Intermountain Power Project (Project). The City has sold 0.364% of its entitlement to other Project participants. However, the City has the right to recall up to 100% of its entitlement upon meeting certain notice provisions. As long as any of the Intermountain Power Agency bonds are outstanding, the Contract cannot be terminated or amended in a manner which will impair or adversely affect the rights of any of the bondholders.

The City has also signed a power purchase agreement with the City of St. George, Utah dated the 28th of September 1987. This agreement sells part of the entitlement share owned by the City in the UAMPS Hunter II contract.

Parowan City total entitlement share	3.4956%
Sale to St. George City	<u>1.7583%</u>
Balance retained by Parowan City	1.7373%

St. George pays UAMPS for the account of Parowan for their share beginning with the billings for the month of October 1987. A Copy of the full agreement is on file in the Parowan City office.

**4-F. Rounding convention**

A rounding convention to the nearest whole dollar has been applied throughout this report, therefore the precision displayed in any monetary amount is plus or minus \$1. These financial statements are computer generated and the rounding conventions is applied to each amount displayed in a column whether detail item or total. As a result, without the overhead cost of manually balancing each column, the sum of displayed amounts in a column may not equal the total displayed. The maximum difference between any displayed number or total and its actual value will not be more than \$1.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

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Parowan City  
**Notes to Required Supplementary Information**  
June 30, 2013

**Budgetary Comparison Schedules**

The Budgetary Comparison Schedule presented in this section of the report is for the City's General Fund.

**Budgeting and Budgetary Control**

The budget for the General Fund is legally required and is prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the City Council 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 Council 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 June 30, 2013, the City's sewer and garbage departments exceeded appropriations by \$5,651 and \$5,704, respectively.

Parowan City  
**SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGED IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
 (Unaudited)**

For the Year Ended June 30, 2013

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget
<b>Revenues</b>				
Taxes	\$ 1,015,260	1,015,260	1,110,783	95,523
Licenses and permits	12,500	12,500	15,455	2,955
Intergovernmental revenues	287,149	287,149	284,385	(2,764)
Charges for services	60,300	60,300	80,657	20,357
Fines and forfeitures	178,700	178,700	113,774	(64,926)
Interest	8,500	8,500	17,007	8,507
Miscellaneous revenue	108,500	113,500	79,806	(33,694)
<b>Total revenues</b>	<b><u>1,670,909</u></b>	<b><u>1,675,909</u></b>	<b><u>1,701,867</u></b>	<b><u>25,958</u></b>
<b>Expenditures</b>				
General government	774,956	774,956	668,146	106,810
Public safety	662,266	662,266	615,290	46,976
Highways and public improvements	287,198	287,198	231,890	55,308
Parks, recreation and public property	503,304	508,304	491,444	16,860
<b>Total expenditures</b>	<b><u>2,227,724</u></b>	<b><u>2,232,724</u></b>	<b><u>2,006,771</u></b>	<b><u>225,953</u></b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b><u>(556,815)</u></b>	<b><u>(556,815)</u></b>	<b><u>(304,904)</u></b>	<b><u>251,911</u></b>
<b>Other Financing Sources and (Uses):</b>				
Impact fees	3,745	3,745	3,562	(1,83)
Transfers in	301,213	301,213	530,819	229,606
Transfers (out)	(125,000)	(125,000)	(23,162)	101,838
<b>Total other financing sources and (uses)</b>	<b><u>179,958</u></b>	<b><u>179,958</u></b>	<b><u>511,219</u></b>	<b><u>331,261</u></b>
<b>Net Change in Fund Balances</b>	<b><u>(376,857)</u></b>	<b><u>(376,857)</u></b>	<b><u>206,315</u></b>	<b><u>583,172</u></b>
Fund Balances - beginning of year	25,661	25,661	25,661	-
<b>Fund Balances - end of year</b>	<b><u><u>\$ (351,196)</u></u></b>	<b><u><u>(351,196)</u></u></b>	<b><u><u>231,976</u></u></b>	<b><u><u>583,172</u></u></b>

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

## NONMAJOR GOVERNMENTAL FUNDS

### CAPITAL PROJECT FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

The **Capital Improvement Fund** accounts for the City's capital project activities related to the Heritage Park and fire related capital projects.

The **Airport Fund** is used to account for the acquisition or construction of major capital facilities relating to the development of the City airport.

The **Recreation Complex Fund** accounts for the City's capital project activities related to the recreation complex.

The **Community Theater Capital Project Fund** accounts for the City's capital project activities related to the Community Theater.

### PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that support the government's programs.

The **Permanent Community Theater Fund** is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community theater.

The **Cemetery Perpetual Care Fund** is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

Parowan City  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENT FUNDS**  
June 30, 2013

	Capital Projects Funds				Permanent Funds		Total Nonmajor Governmental Funds
	Capital Improvement	Airport	Community Theatre	Recreation Complex	Community Theatre	Cemetery Perpetual Care	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 669	3,478	2,029	-	-	-	6,176
Other assets	-	-	-	-	167	-	167
Restricted cash and cash equivalents	-	-	-	-	5,902	84,640	90,542
<b>TOTAL ASSETS</b>	<b><u>\$ 669</u></b>	<b><u>3,478</u></b>	<b><u>2,029</u></b>	<b><u>-</u></b>	<b><u>6,068</u></b>	<b><u>84,640</u></b>	<b><u>96,884</u></b>
<b>LIABILITIES</b>							
Accounts payable	\$ 6,351	-	-	-	-	-	6,351
<b>TOTAL LIABILITIES</b>	<b><u>6,351</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>6,351</u></b>
<b>FUND BALANCES:</b>							
Restricted for:							
Perpetual care	-	-	-	-	6,068	84,640	90,708
Assigned for:							
Capital projects	(5,683)	3,478	2,029	-	-	-	(176)
<b>TOTAL FUND BALANCES</b>	<b><u>(5,683)</u></b>	<b><u>3,478</u></b>	<b><u>2,029</u></b>	<b><u>-</u></b>	<b><u>6,068</u></b>	<b><u>84,640</u></b>	<b><u>90,533</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 669</u></b>	<b><u>3,478</u></b>	<b><u>2,029</u></b>	<b><u>-</u></b>	<b><u>6,068</u></b>	<b><u>84,640</u></b>	<b><u>96,884</u></b>

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

Parowan City  
**COMBING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
 For the Year Ended June 30, 2013

	Capital Projects Funds				Permanent Funds		Total Nonmajor Governmental Funds
	Capital Improvement	Airport	Community Theatre	Recreation Complex	Community Theatre	Cemetery Perpetual Care	
<b>REVENUES:</b>							
Interest income	\$ -	-	-	-	38	-	38
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>38</b>
<b>EXPENDITURES:</b>							
Streets and public works	22,085	-	-	-	-	-	22,085
Parks, recreation and public property	-	-	-	-	47	-	47
Capital outlay	16,813	-	-	-	-	-	16,813
<b>Total expenditures</b>	<b>38,898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>-</b>	<b>38,945</b>
<b>Excess (Deficiency) of Revenues over (Under) Expenditures</b>	<b>(38,898)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9)</b>	<b>-</b>	<b>(38,907)</b>
<b>Other Financing Sources and (Uses):</b>							
Transfers in	22,210	-	-	953	-	-	23,162
<b>Total other financing sources and (uses)</b>	<b>22,210</b>	<b>-</b>	<b>-</b>	<b>953</b>	<b>-</b>	<b>-</b>	<b>23,162</b>
<b>Net Change in Fund Balances</b>	<b>(16,688)</b>	<b>-</b>	<b>-</b>	<b>953</b>	<b>(9)</b>	<b>-</b>	<b>(15,744)</b>
Fund balances - beginning	11,005	3,478	2,029	(953)	6,077	84,640	106,277
<b>Fund balances - end of year</b>	<b>\$ (5,683)</b>	<b>3,478</b>	<b>2,029</b>	<b>-</b>	<b>6,068</b>	<b>84,640</b>	<b>90,533</b>

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

## NONMAJOR PROPRIETARY FUNDS

The **Sewer Treatment Fund** is used to account for the activities of the City's sewer treatment operations.

The **Pressurized Irrigation Fund** is used to account for the activities of the City's irrigation system.

The **Garbage Fund** accounts for the activities of the City's garbage collection service.

Parowan City  
**COMBINING STATEMENT OF NET POSITION**  
**NONMAJOR PROPRIETARY FUNDS**  
June 30, 2013

	Sewer Treatment Fund	Garbage Fund	Pressurized Irrigation Fund	Total Nonmajor Enterprise Funds
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 97,908	20,101	9,821	127,831
Accounts receivable, net	53,995	20,558	22,375	96,928
Total current assets	151,903	40,659	32,196	224,758
Non-current assets:				
Capital assets:				
Not being depreciated	-	-	10,717	10,717
Net of accumulated depreciation	421,433	116,774	519,977	1,058,185
Total non-current assets	421,433	116,774	530,694	1,068,901
<b>Total assets</b>	<b>\$ 573,336</b>	<b>157,433</b>	<b>562,890</b>	<b>1,293,660</b>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	\$ 6,001	7,157	8,353	21,511
Compensated absences	7,070	1,219	6,240	14,529
Capital leases, current portion	-	58,799	-	58,799
Revenue bonds, current portion	19,000	-	-	19,000
Total current liabilities	32,071	67,175	14,593	113,839
Non-current liabilities:				
Capital leases, long-term	-	10,045	-	10,045
Revenue bonds, long-term	316,273	-	-	316,273
Total non-current liabilities	316,273	10,045	-	326,318
<b>Total liabilities</b>	<b>348,344</b>	<b>77,220</b>	<b>14,593</b>	<b>440,157</b>
<b>NET POSITION:</b>				
Net investment in capital assets	86,160	47,931	530,694	664,785
Unrestricted	138,832	32,283	17,603	188,718
<b>Total net position</b>	<b>224,992</b>	<b>80,214</b>	<b>548,297</b>	<b>853,503</b>
<b>Total liabilities and net position</b>	<b>\$ 573,336</b>	<b>157,433</b>	<b>562,890</b>	<b>1,293,660</b>

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

Parowan City  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION  
 NONMAJOR PROPRIETARY FUNDS**  
 For the Year Ended June 30, 2013

	Sewer Treatment Fund	Garbage Fund	Pressurized Irrigation Fund	Total Nonmajor Enterprise Funds
<b>Operating income:</b>				
Charges for sales and service	\$ 281,377	191,739	150,912	624,028
Other operating income	450	-	-	450
<b>Total operating revenue</b>	<b><u>281,827</u></b>	<b><u>191,739</u></b>	<b><u>150,912</u></b>	<b><u>624,478</u></b>
<b>Operating expenses:</b>				
Personal services	97,308	33,359	73,655	204,322
Utilities	8,498	352	17,384	26,234
Operating and maintenance	22,058	71,051	9,066	102,176
Insurance	3,651	3,651	3,651	10,954
Other supplies and expenses	14,224	23,928	15,436	53,589
Depreciation expense	10,829	38,925	24,215	73,969
<b>Total operating expense</b>	<b><u>156,569</u></b>	<b><u>171,267</u></b>	<b><u>143,407</u></b>	<b><u>471,243</u></b>
<b>Net operating income (loss)</b>	<b><u>125,258</u></b>	<b><u>20,472</u></b>	<b><u>7,505</u></b>	<b><u>153,235</u></b>
<b>Non-operating income (expense):</b>				
Impact fees	(900)	-	1,650	750
Interest on long-term debt	-	(4,234)	-	(4,234)
<b>Total non-operating income (expense)</b>	<b><u>(900)</u></b>	<b><u>(4,234)</u></b>	<b><u>1,650</u></b>	<b><u>(3,484)</u></b>
<b>Income (loss) before transfers</b>	<b><u>124,358</u></b>	<b><u>16,239</u></b>	<b><u>9,155</u></b>	<b><u>149,751</u></b>
Net transfers - in (out)	(805,697)	(13,488)	(15,000)	(834,185)
<b>Change in net position</b>	<b><u>(681,339)</u></b>	<b><u>2,751</u></b>	<b><u>(5,845)</u></b>	<b><u>(684,434)</u></b>
Net position, beginning	906,331	77,463	554,142	1,537,937
<b>Net position, ending</b>	<b><u>\$ 224,992</u></b>	<b><u>80,214</u></b>	<b><u>548,297</u></b>	<b><u>853,503</u></b>

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

Parowan City  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
For the Year Ended June 30, 2013

	Sewer Treatment Fund	Garbage Fund	Pressurized Irrigation Fund	Total Nonmajor Enterprise Funds
<b>Cash flows from operating activities:</b>				
Cash received from customers - service	\$ 279,787	193,262	154,025	627,073
Cash paid to suppliers	(50,870)	(95,235)	(45,085)	(191,190)
Cash paid to employees	(97,034)	(32,940)	(70,610)	(200,584)
<b>Net cash provided (used) in operating activities</b>	<b><u>131,883</u></b>	<b><u>65,087</u></b>	<b><u>38,329</u></b>	<b><u>235,300</u></b>
<b>Cash flows from noncapital financing activities:</b>				
Net interfund activity	(805,697)	(13,488)	(30,158)	(849,343)
<b>Net cash provided (used) in noncapital financing activities</b>	<b><u>(805,697)</u></b>	<b><u>(13,488)</u></b>	<b><u>(30,158)</u></b>	<b><u>(849,343)</u></b>
<b>Cash flows from capital and related financing activities:</b>				
Cash from impact fees	(900)	-	1,650	750
Cash payments for long-term debt	(34,847)	(56,356)	-	(91,204)
Cash payments for long-term debt interest	-	(4,234)	-	(4,234)
<b>Net cash provided (used) in capital and related financing activities</b>	<b><u>(35,747)</u></b>	<b><u>(60,590)</u></b>	<b><u>1,650</u></b>	<b><u>(94,687)</u></b>
<b>Cash flows from investing activities:</b>				
Cash received from interest earned	-	-	-	-
<b>Net cash provided (used) in investing activities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net increase (decrease) in cash</b>	<b>(709,561)</b>	<b>(8,991)</b>	<b>9,821</b>	<b>(708,730)</b>
Cash balance, beginning	807,469	29,092	-	836,561
<b>Cash balance, ending</b>	<b><u>\$ 97,908</u></b>	<b><u>20,101</u></b>	<b><u>9,821</u></b>	<b><u>127,831</u></b>
<b>Cash reported on the balance sheet:</b>				
Cash and cash equivalents	\$ 97,908	20,101	9,821	127,831
Non-current restricted cash	-	-	-	-
<b>Total cash and cash equivalents</b>	<b><u>\$ 97,908</u></b>	<b><u>20,101</u></b>	<b><u>9,821</u></b>	<b><u>127,831</u></b>

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

Parowan City  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS (continued)**  
For the Year Ended June 30, 2013

**Reconciliation of Operating Income to Net  
Cash Provided (Used) in Operating Activities:**

	Sewer Treatment Fund	Garbage Fund	Pressurized Irrigation Fund	Total Nonmajor Enterprise Funds
<b>Net operating income (loss)</b>	<b>\$ 125,258</b>	<b>20,472</b>	<b>7,505</b>	<b>153,235</b>
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:				
Depreciation and amortization	10,829	38,925	24,215	73,969
Changes in assets and liabilities:				
(Increase) decrease in receivables	(2,040)	1,523	3,113	2,596
Increase (decrease) in payables	(2,226)	3,748	452	1,974
Increase (decrease) in compensated absences	62	419	3,045	3,527
<b>Net cash provided (used) in operating activities</b>	<b><u>\$ 131,883</u></b>	<b><u>65,087</u></b>	<b><u>38,329</u></b>	<b><u>235,300</u></b>

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

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**Independent Auditors' Report on Internal  
Control over Financial Reporting and on Compliance  
And Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
With Government Auditing Standards**

The Honorable Mayor and  
Members of the City Council  
Parowan, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Parowan City, Utah (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2013.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and recommendations to be a material weakness:

11-01. Misstatements Requiring Adjustments

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying schedule of findings and recommendations to be a significant deficiency:

08-02. Segregation of Duties

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

### **City of Parowan, Utah's Response to Findings**

The City of Parowan, Utah's response to the findings identified in our audit is described following the accompanying schedule of findings and recommendations. The City of Parowan, Utah's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Hinton Burdick, PLLC  
St. George, UT  
November 12, 2013

MEMBERS:

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
DEAN R. BURDICK, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA

KENNETH A. HINTON, CPA  
MORRIS J. PEACOCK, CPA  
PHILLIP S. PEINE, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROLS OVER COMPLIANCE  
IN ACCORDANCE WITH THE *STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE***

The Honorable Mayor and  
Members of the City Council  
Parowan, Utah

**REPORT ON COMPLIANCE**

We have audited the City of Parowan's compliance with the general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2013.

The general compliance requirements applicable to Parowan City are identified as follows:

- Cash Management
- Budgetary Compliance
- Fund Balance
- Impact Fees
- Utah Retirement Systems Compliance
- Transfers from Utility Enterprise Funds
- Government Records Access Management Act
- Conflicts of Interest
- Nepotism
- Utah Public Finance Website
- Open and Public Meetings Act

Parowan City received the following major assistance program from the State of Utah:

- B & C Roads (Department of Transportation)

**Management's Responsibility**

Compliance with the requirements referred to above is the responsibility of Parowan City's management.

**Auditor's Responsibility**

Our responsibility is to express an opinion on Parowan City's compliance with those requirements based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Parowan City and its major programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

### **Opinion**

In our opinion, Parowan City, Utah, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2013.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in the accompanying schedule of findings and recommendations as items 12-02, 13-01, 13-03 and 13-04.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of Parowan City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over

compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

### **Parowan City's Response to Findings**

Parowan City's response to the findings identified in our audit are described in the accompanying letter from management. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of Report**

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



HintonBurdick, PLLC  
St. George, Utah  
November 12, 2013



MEMBERS:

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**Findings and Recommendations  
For the Year Ended June 30, 2013**

The Honorable Mayor and  
Members of the City Council  
Parowan, Utah

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. We wish to commend the City for their administrative achievements and oversight of the City's accounting and budget system. During our audit of the funds of the City of Parowan, Utah for the fiscal year ended June 30, 2013 we found a few circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**Material Weaknesses:**

11-01 Misstatements Requiring Adjustments

We noted that the City has contracted with independent consultants to assist with the monthly and year-end accounting work. We commend the City and their consultants for their efforts at year-end. We continue, however, to mention these adjustments as a finding because current auditing standards indicate that identification of material audit adjustments constitute a material weakness.

Recommendation

We recommend that management review the journal entries and discuss them with us to ensure they understand and are in agreement with the entries and that they understand the purpose and underlying accounting principles associated with each entry. We also recommend that the City continue its efforts with the consultants to ensure that all significant and material adjustments are posted to the general ledger before the annual audit takes place.

**Significant Deficiencies:**

08-02 Segregation of Duties

We understand that the size of the City and its administrative staff prohibit the complete and proper segregation of duties within its accounting functions; as a result, custody of assets and

recording functions are not properly segregated for the cash receipts and expenses/accounts payable functions. Management has implemented controls such as management's review of disbursements that mitigate this weakness such that it is not deemed to be a material weakness; however, such segregation of duties provide important safeguards and controls to ensure the proper recording, deposit and disposition of the City's funds.

#### Recommendation

As the City continues to grow and additional staff are considered necessary, we recommend that management consider ways that segregation of duties can be achieved within its accounting and administrative functions. We have discussed duties that should be segregated with the City Manager and would be happy to assist the City in the design and/or implementation of job descriptions and duties to properly achieve this segregation. We also recommend that management continue to monitor disbursements. The City Council or audit committee should provide oversight by designating a council member or audit committee member to review the bank reconciliations each month. The City Council or audit committee should also review a budget to actual financial statement on a monthly or quarterly basis to provide additional oversight.

### **COMPLIANCE AND OTHER MATTERS:**

#### **Compliance:**

##### 12-02 General Fund - Fund Balance Requirements and Appropriations

Utah Code 10-6-116(4) indicates that 5% of the total revenues of the General Fund must be maintained in the fund as a minimum fund balance. For the current fiscal year the City is in compliance with the minimum fund balance requirements. However, the Code further specifies that only the amount over the 5% minimum may be utilized for budget purposes. For the fiscal year ending June 30, 2013 the City has appropriated approximately \$142 thousand more in fund balance than is allowable.

#### Recommendation

We recommend that the City review the fund balance available for appropriation in the next fiscal year and make budget adjustments as necessary to maintain the minimum required fund balance as required by the Utah Code.

13-01 Transfers Exceeded the Budget

Transfers between funds must be set forth by the council through a formal resolution. Such formal resolution is typically done through adopting the original or amended budget. Actual transfers between funds are not to exceed the budget. The City transferred funds from the Electric Fund to the General Fund. The said transfer exceeded the adopted budget.

Recommendation

We recommend that expenditures be monitored closely and compared to the budget throughout the year. If expenditures are greater than expectations, then we recommend that action be taken to control expenditures or adjust the budget to prevent expenditures exceeding the adopted budget.

13-03 Transparency

Utah Code *UCA 63A-3-402* requires the City to post detail revenue and expense information to the Utah Public Finance Website within one month of the end of each fiscal quarter. It also requires the City to post its employees' compensation information within 3 months of June 30<sup>th</sup> of each fiscal year. The last update was made in October 2012.

Recommendation

We recommend that the City upload detail revenue and expense information to the Utah Public Finance Website on a monthly basis. We also recommend that employee compensation information be uploaded within 3 months from the close of each fiscal year.

13-04 Filing of Tax Forms

The IRS Form 941 must be filed within one month following the end of the quarter. It was noted during the course of the audit that the City did not timely file 1 of the 4 Form 941s.

Recommendation

We recommend that the City become familiar with the Form 941 and the information that must be filed thereon. We further recommend that the City file the Form 941 in a timely manner.

**Other Matters:**

None noted

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

This letter is intended solely for the use of the Mayor, City Council, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to each of you who assisted us in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC  
November 12, 2013



5 S. Main Street  
Phone: (435) 477-3331

P.O. Box 576  
Fax: (435) 477-8092

Parowan, UT 84761  
www.parowan.org

Mr. Auston Johnson  
Utah State Auditor  
Senate Office Building Suite E310  
PO Box 142310  
Salt Lake City, Utah 84114

December 12, 2013

*Re: Parowan City responses to FY13 Audit Findings*

Mr. Johnson,

On behalf of Parowan City, please accept this letter as official responses to the Audit Findings letter for Fiscal Year 2013 completed by Hinton Burdick PLLC on December 12, 2012. The responses are as follows:

**Finding 11-01 Misstatements Requiring Adjustments** – As recommended by the auditor, Parowan City will continue to contract with outside accounting consultants for year-end and as-needed accounting assistance. Management will continue to review adjustments and journal entries that are made or suggested by these consultants. We also feel as staff we have a better handle on these adjustments and will continue to improve as key budget staff has more experience including City Manager and City Recorder.

**Finding 08-02 Segregation of Duties – prior year reissued** – Although Parowan City is a very small city with limited staff, management has targeted several practices that will be implemented over the next few months to continue to further segregate duties. First, the City Manager will be making a quarterly presentation to the city council illustrating the financial health or lack of health of each fund every quarter at city council meetings. Second, staff are cross-training each other on key budget duties so multiple staff may know about key transactions. Further the Parowan City Council recently passed a “cash handling” policy that will further reduce the opportunity for fraud. Finally, the City Manager has been making the monthly transfers to the General Fund as well as depreciation and other necessary monthly transfers.

**Finding 12-02 General Fund - Fund Balance Requirements and Appropriations** – Parowan City has taken significant steps over the past 12 months to return the General Fund to good standing including allocating expenses properly and curbing unnecessary spending. Projects paid for through the General Fund that are not absolutely necessary are on hold. Management is also evaluating FY14 budget and preparing staff to make necessary cuts to curb spending to be able to include a smaller, more appropriate number in the “Begging Fund Balance to be Appropriated” line. City staff will also continue to look for ways to increase General Fund revenue including proposing raising taxes if necessary.

**Finding 13-01 Transfers Exceeded the Budget Fund** - Although the transfer in question was made through council approval, a formal resolution was not adopted. This has been remedied through internal staff training to the City Recorder and City Manager noting the steps necessary in order to conduct a transfer that exceeds the Budget.

**Finding 13-03 Transparency** – Since the untimely passing of our City Recorder in September of 2012, Transparency is something that has been neglected by City Staff. Our new City Recorder will be taking this task on and has committed to meeting Transparency deadlines moving forward.

**Finding 13-04 Filing of Tax Forms** – Our City Recorder is responsible for filing Form 941 within one month of the end of each quarter. Her records show she filed each Form 941 within one month of each quarter except the first quarter of Fiscal Year 2013. We cannot find records that indicate she was late for 3 of the 4 filings. Our City Recorder will continue to file Form 941 within one month of the end of each quarter.

If there are any questions about this notice or these responses, do not hesitate to contact me via email at [pcmanager@infowest.com](mailto:pcmanager@infowest.com) or via telephone at (435) 477-3331. Thank you very much for your time on this very important matter.

Sincerely Yours,



Ecc: Caleb Reese, Hinton Burdick  
Donald G. Landes, Parowan City Mayor

Shayne Scott  
City Manager  
Parowan City, Utah