

CITY OF FARMINGTON, MISSOURI

FINANCIAL STATEMENTS

September 30, 2009

CITY OF FARMINGTON, MISSOURI

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CITY OF FARMINGTON, MISSOURI

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Mayor and City Council
City of Farmington
Farmington, Missouri 63640

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Farmington, Missouri, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Farmington, Missouri's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Farmington, Missouri, as of September 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2010, on our consideration of the City of Farmington, Missouri'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 18 and 44 through 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington, Missouri's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Farmington, Missouri. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Thurman, Shinn & Company
Certified Public Accountants
March 17, 2010

**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**

To the Mayor and City Council
City of Farmington
Farmington, Missouri 63640

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of City of Farmington, Missouri, as of and for the year ended September 30, 2009, which collectively comprise the City of Farmington, Missouri's basic financial statements and have issued our report thereon dated March 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Farmington, Missouri's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Farmington, Missouri's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Farmington, Missouri's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Farmington, Missouri's internal control.

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

Compliance and Other Matters

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

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Thurman, Shinn & Company
Certified Public Accountants

March 17, 2010

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and City Council
City of Farmington
Farmington, Missouri 63640

Compliance

We have audited the compliance of the City of Farmington, Missouri, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City of Farmington, Missouri's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Farmington, Missouri's management. Our responsibility is to express an opinion on the City of Farmington, Missouri's compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Farmington, Missouri'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 of Farmington, Missouri's compliance with those requirements.

In our opinion, the City of Farmington, Missouri, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the City of Farmington, Missouri, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Farmington Missouri's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 of Farmington, Missouri's internal control over compliance.

A *control deficiency* in an entity's 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 noncompliance with a type of

compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Thurman, Shinn & Company
Certified Public Accountants

March 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Farmington, we offer readers of the City of Farmington's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2009. We encourage readers to review the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

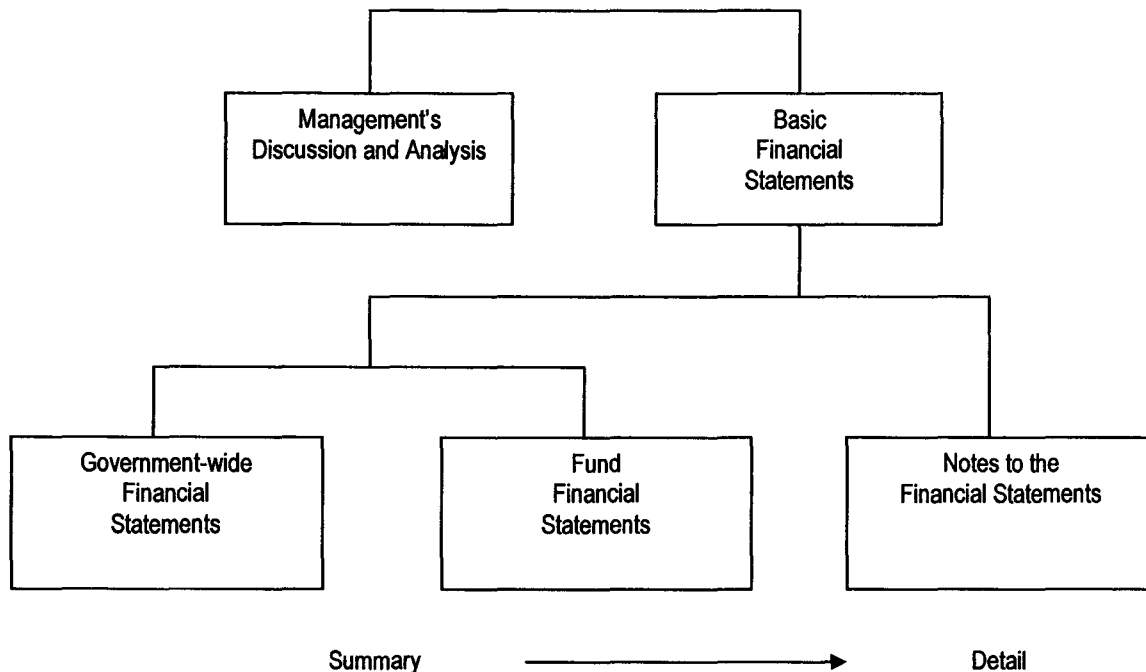
- The assets of the City of Farmington exceeded its liabilities at the close of the fiscal year by \$64,445,931 (*net assets*).
- The government's total net assets increased by \$4,361,204. This increase was distributed between all funds with only the debt service fund experiencing a decrease in net assets, which was due primarily to a decrease in reserves for a governmental bond payment.
- As of the close of the fiscal year, the City of Farmington's governmental funds reported combined ending fund balances of \$10,847,456 with a net change of \$5,326,648 in fund balance. Approximately 29 percent of this total amount or \$3,198,835 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the fiscal year, the governmental funds full unreserved fund balance of \$3,198,835 was held in the General Fund. This amounts to 52 percent of total General Fund expenditures for the fiscal year.
- The City of Farmington experienced a severe storm in May 2009 which led to damaged utility lines, upturned trees, extensive road debris, and damage to a wastewater lift plant, as well as damage to local residences and businesses. The cost of the repairs (equipment wear and tear included) and clean-up totaled \$36,322 entity wide. A receivable in the amount of \$27,950 was booked as of September 30, 2009 for monies due from the Federal Emergency Management Association disaster relief fund.
- The City of Farmington's total debt increased by \$5,488,600 (34.5%) during the fiscal year. This increase was due to the addition of two lease-purchase agreements to assist in the funding of two capital projects. The first lease-purchase agreement was in the amount of \$3,075,000 with a term of three years for the expansion on the East Wastewater Treatment Plant. Payments on this agreement are to be made from the proceeds of a capital improvement sales tax. The second lease-purchase agreement was in the amount of \$4,305,000 with a term of 20 years for the construction of a new fire station. Payments on this agreement are to be made from general and TIF revenues.
- The payment in lieu of taxes from the electric, water, and sewer departments was increased from 3.5% in FY08 to 4% or \$865,300 in FY09. This pilot payment is made in lieu of a franchise fee which is typically found to be 5% in many municipalities.
- Financial grants and contributions increased 45% over the prior fiscal year resulting in total grants and contributions of \$1,181,278. The majority of this increase was due to a community development block grant for expansion of sewer and wastewater services on the northwest side of town for the development of a reservation center for Crown Industries.
- The City of Farmington acquired the Farmington Senior Center as of January 1, 2009. This resulted in an asset donation of \$264,341 and the addition of four full-time employees and one regular part-time employee. The Farmington Senior Center is now a function of the Civic Complex fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Farmington's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Farmington.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary funds statements; and 3) the budgetary comparison statements.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information can also be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: governmental activities and business-type activities. The governmental activities include most of the City's basic services such as public safety, library, parks and recreation, and general administration. Most of these activities are financed by sales taxes and property taxes. The business-type activities are those that the City charges customers to provide. These include the airport; civic center, water park and senior center; water and electric services; and sewer services offered by the City of Farmington.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. 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 of Farmington, like all other governmental entities in Missouri, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the State of Missouri Revised Statutes or the City's budget ordinance. All of the funds of the City of Farmington can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements. All revenues and expenses for the fiscal year are reported when earned and incurred regardless of when cash is received or paid. Therefore, some revenues will result in cash flows in future fiscal years, and some expenses will result in cash outlays in future fiscal years.

The City of Farmington adopts an annual budget for its General Fund, as required by the State of Missouri Revised Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the City Council; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City of Farmington utilizes *Enterprise Funds* to report the functions presented as business-type activities in the government-wide financial statements. The City of Farmington uses enterprise funds to account for its airport, civic complex (civic center, water park, Centene Center, and senior center), utility (electric and water), and sewer activities. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. The enterprise funds are reported using a full accrual basis. All revenues and expenses for the fiscal year are reported when earned and incurred regardless of when cash is received or paid. Therefore, some revenues will result in cash flows in future fiscal years, and some expenses will result in cash outlays in future fiscal years.

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.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information which contains budget to actual comparison schedules for all of the City's governmental funds.

Government-Wide Financial Analysis

City of Farmington's Net Assets
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current	\$ 3,805,844	\$ 2,591,598	\$ 7,650,995	\$ 7,053,117	\$ 11,456,839	\$ 9,644,715
Other Assets	8,225,532	3,742,469	3,775,209	4,159,032	12,000,741	7,901,501
Capital assets	25,193,182	21,269,342	40,472,295	39,952,601	65,665,477	61,221,943
Total assets	37,224,558	27,603,409	51,898,499	51,164,750	89,123,057	70,866,658
Long-term liabilities outstanding	8,114,408	2,322,607	11,282,265	12,362,979	19,396,673	14,685,586
Current liabilities	2,660,467	1,252,336	2,619,986	2,745,512	5,280,453	3,997,848
Total liabilities	10,774,875	3,574,943	13,902,251	15,108,491	24,677,126	18,683,434
Net assets:						
Invested in capital assets, net of related debt	20,715,195	18,507,658	31,445,879	29,663,285	52,161,074	48,170,943
Restricted	2,535,653	2,253,490	1,248,722	1,104,390	3,784,375	3,357,880
Unrestricted	3,198,835	3,267,318	5,301,647	5,288,584	8,500,482	8,555,902
Total net assets	\$ 26,449,683	\$ 24,028,466	\$ 37,996,248	\$ 36,056,259	\$ 64,445,931	\$ 60,084,725

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Farmington exceeded liabilities by \$64,445,931 as of September 30, 2009. The City's net assets increased by \$4,361,206 for the fiscal year ended September 30, 2009. However, the largest portion of the assets (81%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. This is up slightly from 80% at the end of the prior fiscal year. The City of Farmington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Farmington's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Farmington's net assets \$3,784,375 (5.9%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$8,500,482 is unrestricted funds. While the amount of unrestricted monies remained substantially the same, the noticeable increase of \$3,990,131 is related to capital projects in progress.

City of Farmington's Statement of Activities
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for goods and services	\$ 654,718	\$ 719,466	\$ -	\$ -	\$ 654,718	\$ 719,466
Electric Charges			18,756,499	19,103,198	\$ 18,756,499	19,103,198
Water Charges			1,329,366	1,263,854	\$ 1,329,366	1,263,854
Sewer Charges			1,644,504	1,636,738	\$ 1,644,504	1,636,738
Airport Charges			171,398	203,248	\$ 171,398	203,248
Civic Complex			1,436,678	1,255,219	\$ 1,436,678	1,255,219
Operating grants and contributions	163,746	63,687	349,161	45,295	\$ 512,907	108,982
Capital grants and contributions	205,366	-	727,346	707,304	\$ 932,712	707,304
General revenues:						
Sales taxes	6,444,342	6,564,869			\$ 6,444,342	6,564,869
Property taxes	829,646	825,803			\$ 829,646	825,803
Motor Fuel & Vehicle Tax	520,339	538,221			\$ 520,339	538,221
Other taxes	468,770	805,826			\$ 468,770	805,826
Tax Increment Finance Proceeds	413,234	401,097			\$ 413,234	401,097
Interest Income	44,302	105,346	209,913	178,749	\$ 254,215	284,095
Administrative Pilot Payment	865,300	319,659			\$ 865,300	319,659
Other	96,463	88,954			\$ 96,463	88,954
Total revenues	10,706,226	10,432,928	24,624,865	24,393,605	35,331,091	34,826,533
Expenses:						
General government	1,163,087	1,279,539			1,163,087	1,279,539
Public safety	3,019,667	2,891,370			3,019,667	2,891,370
Streets and Public Works	2,063,510	1,973,984			2,063,510	1,973,984
Cultural and recreation	928,522	862,743			928,522	862,743
Electric			18,529,589	18,310,169	18,529,589	18,310,169
Water			1,051,594	1,028,960	1,051,594	1,028,960
Sewer			1,822,347	2,043,264	1,822,347	2,043,264
Airport			383,491	333,463	383,491	333,463
Civic Complex			2,008,078	1,769,285	2,008,078	1,769,285
Total expenses	7,174,786	7,007,636	23,795,099	23,485,141	30,969,885	30,492,777
Increase in net assets before transfers	3,531,440	3,425,292	829,766	908,464	4,361,206	4,333,756
Transfers	(1,110,223)	(604,835)	1,110,223	604,835	-	-
Increase in net assets	2,421,217	2,820,457	1,939,989	1,513,299	4,361,206	4,333,756
Net assets, October 1	24,028,466	21,208,009	36,056,259	34,542,960	60,084,725	55,750,969
Net assets, September 30	\$ 26,449,683	\$ 24,028,466	\$ 37,996,248	\$ 36,056,259	\$ 64,445,931	\$ 60,084,725

Governmental activities. Governmental activities increased the City's net assets by \$3,531,440 before transfers, thereby accounting for 81% of the total growth in the net assets of the City of Farmington. Key elements of this change are as follows:

- ... Grant revenues in the general government, public safety, and cultural and recreational areas of \$369,112 utilized for capital assets and operating expenses.
- ... Tax revenues (net of utility and gross receipts taxes) decreased approximately 2% as a result of the downturn experienced in the economy.
- ... Utility and gross receipts taxes decreased \$337,056 which was anticipated and budgeted for due to the fact that a settlement payment for back taxes on cellular phones was received in the prior fiscal year.
- ... Capital grants in the amount of \$727,346 were received for construction of an airport terminal and airport expansion.
- ... The City of Farmington assumed operations of the Farmington Senior Center which resulted in a donation (facility appraisal net of assumed liabilities) of \$264,341 for the Senior Center.

As seen in Figure 4, many of the City's revenue sources decreased in Fiscal Year 2009 compared to the prior fiscal year. These decreases were offset by an increase in grant funding and a planned increase in the administrative payments in lieu of taxes received from the utilities.

Revenues by Source
Figure 4

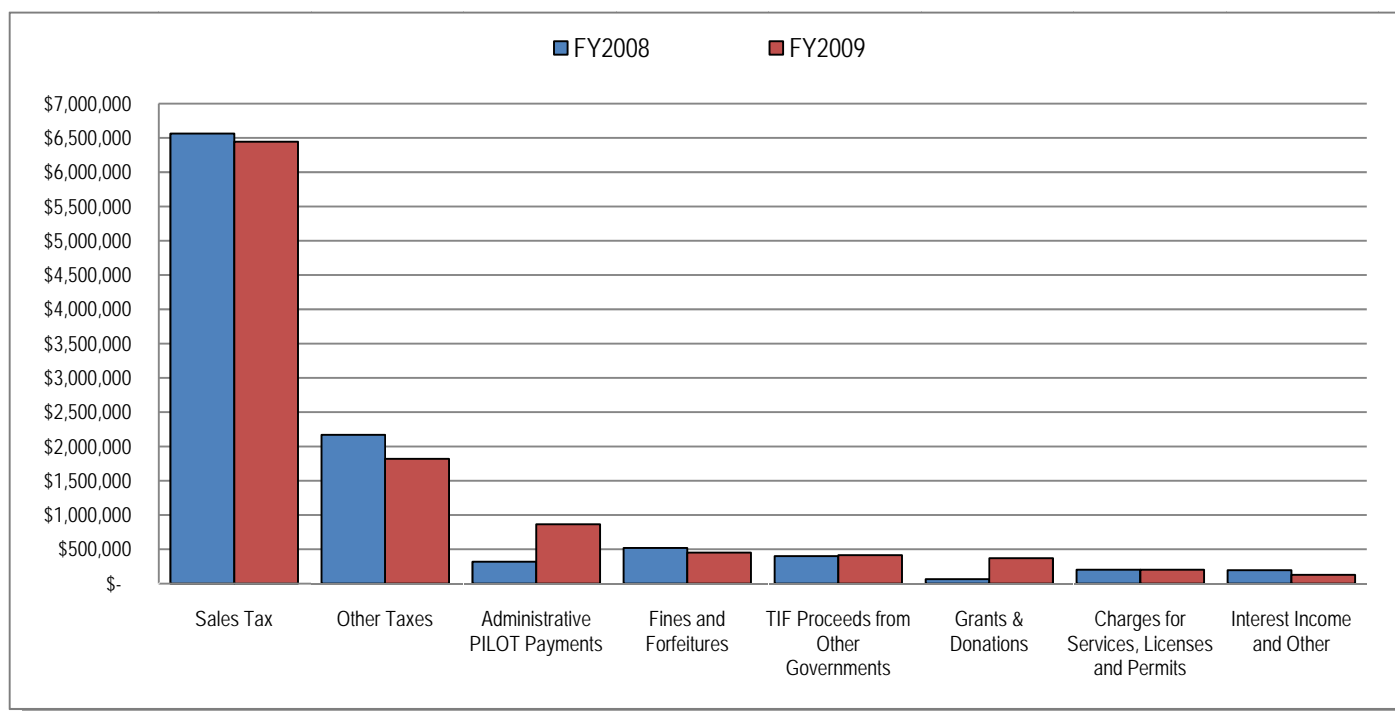
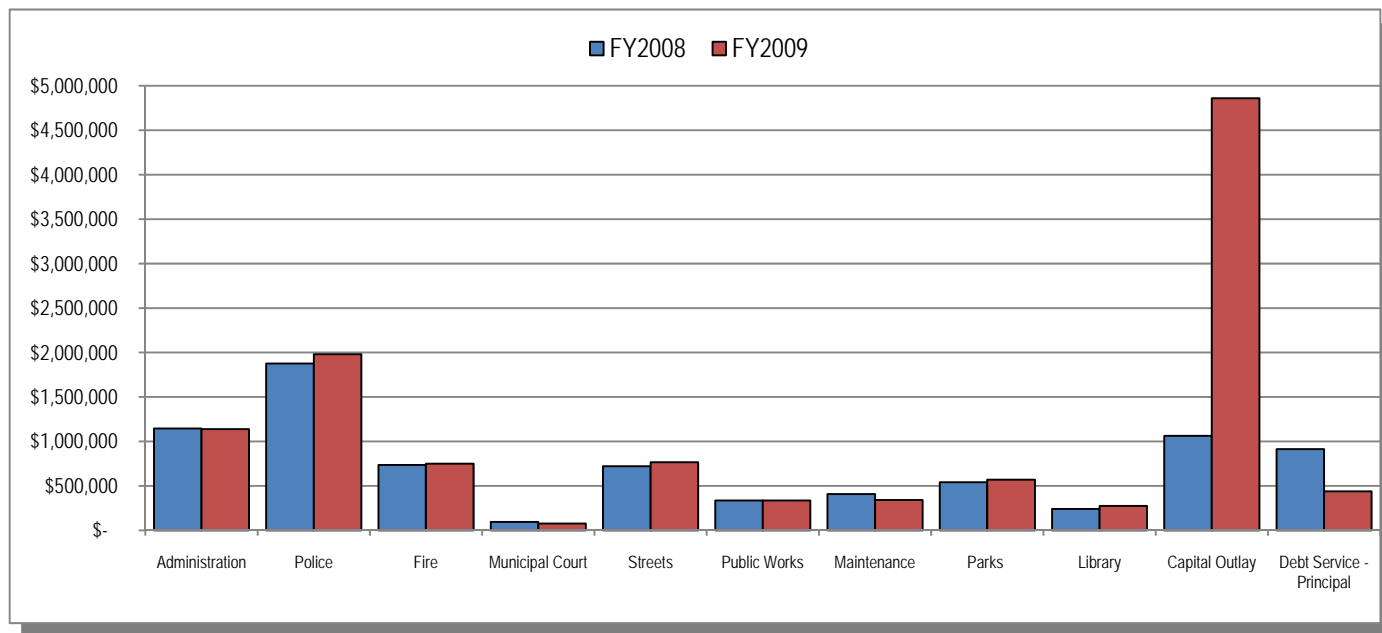


Figure 5, shown on the following page, provides a prior year comparison of the functional expenses for the City of Farmington. Many areas experienced a slight increase in expenses. It was imperative that the City keep overall expenses in line with the prior year and available revenues, therefore a reduction in expenses was seen in the Administrative and Maintenance areas. A large increase in capital outlay is seen due to the construction projects underway in the City.

Expenses by Function
Figure 5



Financial Analysis of the City's Individual Funds

As noted earlier, the City of Farmington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Farmington's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Farmington's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Farmington. At the end of the current fiscal year, the General Fund balance was \$3,198,835 of which \$285,000 was reserved for advances to other funds. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance (2,913,835) represents 47% of total General Fund expenditures, while the total fund balance (\$3,198,835) represents approximately 52% of total General Fund expenditures.

At September 30, 2009, the governmental funds of the City of Farmington reported a combined fund balance of \$10,847,456 with a net increase in fund balance of \$5,326,648. Included in this change in fund balance are increases in fund balance in the General, Capital Projects, and Special Allocation Funds. The largest portion of the increase (86%) occurred in the Capital Projects Fund due to the Fire Station and East Treatment Plant expansion projects currently under construction. A slight decrease (\$28,436) was realized in the Debt Service Fund. This decrease was anticipated due to a reduction in the amount of reserves required for payment on the City's outstanding general obligation bond.

Proprietary Funds. The City of Farmington's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds equaled \$5,301,647 at the end of the fiscal year. The Utility Fund, which consists of Electric and Water had unrestricted net assets of \$5,446,175, a \$456,612 or 9% increase over the prior year. This is due primarily to a carry-over in budgeted expenditures to Fiscal Year 2010 of \$435,000 for the purchase of a new electric department and warehouse facility. The Sewer Fund had no unrestricted net assets at the end of the fiscal year. The Civic Complex Fund, which consists of the Civic Center, Centene Center, Water Park, and Senior Center, had unrestricted net assets of \$40,523, a \$229,829 or 85% decrease from the prior year. This decrease in unrestricted net assets is due to the acquisition of the senior center which resulted in a decrease in unrestricted fund balance and an increase in net assets invested in capital.

Budgetary Highlights

During the fiscal year, the City revised the budget on two occasions. The first amendment affected only governmental funds, while the second amendment affected both governmental and proprietary funds. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Governmental Fund Amendments

- The initial budget amendment was to approve and budget for the purchase of property for a new Fire Station facility. The purchase price of the property was \$685,000, which included demolition of an existing structure at the location.
- Other significant budget amendments made to the General Fund included:
 - an increase in grants and donations in the cultural and recreation areas,
 - a decrease in motor fuel and vehicle taxes, which was driven by a decrease in the number of gallons of fuel sold statewide,
 - an increase in revenues in the public safety area to account for an increase in court fines,
 - an increase in gross receipts taxes primarily due to the cellular phone utility tax receipts,
 - an increase in the administrative pilot payment received from the proprietary funds from 3.5% to 4%,
 - an increase in streets and public works expenditures to account for the addition of a summer temporary crew to assist with road maintenance projects,
 - an increase in the expenditures of the cultural and recreation areas for facility improvements.
- Debt Service Fund budget amendments were made to move a portion of the Certificates of Participation payments and transfers to the Civic Complex Fund as the debt was split between the two funds.
- The Capital Projects Fund experienced an amendment resulting in a significant increase in capital expenditures for the Fire Station and East Treatment Plant capital projects in progress. These increases were related to the construction timeline and not the overall project costs.

Proprietary Fund Amendments

- Amendments to the Civic Complex Fund were largely driven by two factors. The first being the reclassification of the Certificates of Participation debt to the Civic Complex Fund. This led to a transfer and debt related revenue and expenses being amended in the fund. The second factor was an adjustment to the revenue and expenses of the Senior Center. This adjustment was reflective of changes determined to be necessary after having a couple of months of operations completed.
- The primary amendments to the Airport Fund consisted of increases in fuel revenues and expenses and decreases in capital grants and expenses to better reflect the sales and construction time line being realized.
- The major amendments to the Utility Fund included the following:
 - an increase in miscellaneous revenue to account for insurance reimbursements received on storm damaged items,
 - a decrease in power purchase costs to account for the receipt of a settlement on prior overbillings from Westar to the Missouri Public Utility Alliance, which were originally passed on to member cities,
 - an increase in the payment in lieu of taxes made to the General Fund,
 - an increase in capital expenses to system monitoring equipment expenses and facility improvements,
 - a decrease in the amount of water revenues based on a decrease in the amount of actual usage,
 - an increase in the amount of money to be transferred to capital projects on the Highway H well project.
- Sewer Fund amendments included a decrease in anticipated sewer revenues to correspond with the decrease being seen in water. Additionally, the amount of transfer being received from the Capital Projects Fund was increased to release funds originally slated for sewer capital but being held in the Capital Projects Fund.

Performance to Budget

Governmental Funds. Actual revenues in the Governmental Funds as a whole were \$367,091 or 3% below budget. This is due to decreases in the amount of revenue received in the Capital Projects and Special Allocation Funds. Decreases in the Capital Projects Fund were driven by a \$156,671 or almost 5% below budget realization in capital sales tax receipts and a \$136,634 variance in grant

revenue due to project funding being carried over into FY2010. The Special Allocation Fund had a variance of \$83,016 in TIF Proceeds due to the withholding of incremental revenues by the St. Francois County Ambulance District. Actual expenditures for the governmental funds as a whole were \$254,827 less than budgeted. This variance was realized primarily in the General Fund where expenditures were held in check to ensure that the expenditures were in line with available revenues and fund resources.

Proprietary Funds. The Airport Fund actual revenues were \$366,197 or 38% below budget. This is due to a decrease in the amount of revenue from grants, which was a result of the construction timeline and progress made on the airport. A decrease in capital expenditures for the airport was also realized. The grant revenue and corresponding expenses carried over into FY2010.

Utility Fund revenues were \$282,951 or 1% above budget. This was due primarily to a variance in electric and water usage and the receipt of disaster relief funds for damage that happened during a May 2009 storm. Utility Fund expenses were \$1,413,111 or 7% below budget. This was due to lower power costs being realized because of the previously mentioned refund. Additionally, MPUA, the City's electric supplier, was able to purchase wholesale power at a slightly lower rate due to a new power plant becoming operational in early 2009. This plant, in addition to others due to become operational in the near future, should help hold the City's power costs in place for the next five years. However, the City was informed during the fiscal year that certain transmission costs from the Midwest Independent Transmission System Operator (MISO) had not been passed along to the City in prior billings. The City owed approximately \$501,200 in prior transmission costs. An agreement was reached that this would be billed in incremental amounts on future billings. Another item that affected the expenses in the Utility Fund was the delay in the capital purchase of a new facility for the Electric Department and Warehouse. The purchase was subsequently completed in FY2010.

The Sewer Fund revenues were \$42,105 or 2% above budget. As was seen in the Utility Fund, this increase was due primarily to a variance in sewer usage and the receipt of disaster relief funds for damage that happened during a May 2009 storm. Sewer fund expenditures were \$181,912 or 8% below budget. This was largely due to a variance in the engineering costs and a delay in capital expenditures for inflow and infiltration prevention, which was carried over into FY2010.

Capital Asset and Debt Administration

Capital assets. The City of Farmington's investment in capital assets for its governmental and business-type activities as of September 30, 2009, totals \$65,665,477 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. This is a seven percent (7%) increase over the prior year primarily due to the construction in progress on a new Fire Station and East Wastewater Treatment Plant expansion.

City of Farmington's Capital Assets
Figure 6

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land and Land Improvements	\$ 2,412,846	\$ 1,671,161	\$ 650,686	\$ 650,686	\$ 3,063,532	\$ 2,321,847
Buildings and system	3,323,500	3,213,326	17,092,731	15,588,428	20,416,231	18,801,754
Equipment, Furniture, and Vehicles	4,776,944	4,547,464	3,036,406	2,715,580	7,813,350	7,263,044
Infrastructure	21,959,069	21,106,236	38,684,487	38,625,462	60,643,556	59,731,698
Construction in progress	3,408,340	-	518,118	658,685	3,926,458	658,685
Total	35,880,699	30,538,187	59,982,428	58,238,841	95,863,127	88,777,028
Less Accumulated Depreciation	10,687,517	9,750,205	19,510,133	17,804,880	30,197,650	27,555,085
Total	\$ 25,193,182	\$ 20,787,982	\$ 40,472,295	\$ 40,433,961	\$ 65,665,477	\$ 61,221,943
Adjustment made to Prior Period - Capital Project Work in Progress		481,360		(481,360)		-
	\$ 25,193,182	\$ 21,269,342	\$ 40,472,295	\$ 39,952,601	\$ 65,665,477	\$ 61,221,943

Major capital asset transactions during the year include the following:

Governmental Funds

- General government asset additions of \$50,177 for land, a recycling center, and parking lot and sidewalk improvements at City Hall.
- Public safety asset additions of \$91,540 for police vehicles and communications equipment.
- Street and public works asset additions of \$126,466 for equipment and \$584,957 for streets, sidewalks, curbs and guttering.
- Construction in progress of \$863,437 in governmental-type activities for acquisition of land and architectural and engineering work for the construction of a new fire station.
- Cultural and recreation asset additions of \$56,454 for facility improvements at the library and parks equipment.
- Addition of \$2,748,543 for construction in progress on the East Wastewater Treatment Plant. This asset will be transferred to the Sewer Fund upon completion of construction and the start of operations of the new facility expansion.

Proprietary Funds

- Completion of the airport terminal resulting in an asset addition of \$459,796.
- Construction in progress in the amount of \$495,554 for airport expansion.
- Electric system equipment asset addition of \$73,025 for system reading and monitoring equipment and a pole trailer.
- Sewer system asset additions of \$237,707 for treatment plant improvements and system reading equipment.
- Water system asset additions which included \$387,712 for a well located in the vicinity of Highway H, \$121,059 for improvements related to the reduction and elimination of radionuclide in the drinking water system, and \$10,095 for system reading equipment.

Additional information on the City's capital assets can be found in Note 4 to the Basic Financial Statements.

Long-term Debt

City of Farmington's Outstanding Debt

The City of Farmington's total debt increased by \$5,488,600 (34.5%) during the past fiscal year, primarily due to the addition of two capital leases entered into for the construction of a new fire station (\$4,305,000) and the expansion of the East Wastewater Treatment Plant located on Highway 32 (\$3,075,000).

Debt currently held for the City of Farmington includes:

- A general obligation bond for the construction of the police department facility which has a remaining balance as of September 30, 2009 of \$65,000. This is to be repaid from the general revenues of the City with the final payment due May 2010.
- Revenue Bonds for sewer system construction in the amount of \$3,815,000 are to be repaid solely through sewer system revenues with the final payment due July 2021.
- At the time the revenue bonds were used, the State of Missouri put 70% of each construction payment into a reserve account for use if the City was unable to make a payment. Each year the City pays back to the state 70% of that year's principal payment. The remaining amount to be repaid to the State of Missouri is \$2,679,569.
- A balance of \$5,088,100 remains on a capital improvement certificates of participation issue payable from available revenues in the fiscal year. The governmental funds account for \$2,260,684 of the balance, and the proprietary funds account for \$2,827,416 of the balance.
- The City has a total of four capital leases amounting in \$9,764,000. They are as follows:
 - An electric generators capital lease in the amount of \$2,384,000 with final payment due December 2015.
 - A fire station construction capital lease in the amount of \$4,305,000 with final payment due August 2029.
 - An East Treatment Plant Expansion capital lease in the amount of \$3,075,000.

**General Obligation Bonds, Revenue Bonds,
Certificates of Participation and Capital Leases
Figure 7**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 65,000	\$ 160,000			\$ 65,000	\$ 160,000
Revenue bonds			3,815,000	4,090,000	3,815,000	4,090,000
Due to State of Missouri			2,679,569	2,872,069	2,679,569	2,872,069
Certificates of Participation	2,257,584	2,601,684	2,827,416	3,258,316	5,085,000	5,860,000
Capital Leases	7,380,000		2,384,000	2,941,000	9,764,000	2,941,000
Total	\$ 9,702,584	\$ 2,761,684	\$ 11,705,985	\$ 13,161,385	\$ 21,408,569	\$ 15,923,069

State of Missouri Revised Statutes limit the amount of general obligation debt that a unit of government can issue to 20 percent of the total assessed value of taxable property located within that government's boundaries. The total assessed valuation as of October 2008 was \$176,878,316, resulting in a legal debt margin for the City of Farmington of \$35,375,663.

* Section 95.115 of the 1978 Missouri Revised Statutes permits any county or city, by vote of two-thirds of qualified electors voting thereon, to incur additional indebtedness for city purposes not to exceed 5 percent of the taxable tangible property therein, as shown by the last assessment.

* Section 95.120 of the 1978 Missouri Revised Statutes permits any county or city, by a vote of two-thirds of qualified electors voting thereon, to incur additional indebtedness for city purposes not to exceed 5 percent of the taxable tangible property therein, as shown by the last assessment.

* Sections 95.125 and 95.130 of the 1978 Missouri Revised Statutes provide that any city may become indebted not exceeding in the aggregate an additional 10 percent for the purpose of acquiring right-of-ways, constructing, extending, and improving streets and avenues and/or sanitary or storm sewer system, and an additional 10 percent for purchasing or construction of waterworks, electric, or other light plants, provided the total general obligation indebtedness of the city does not exceed 20 percent of the assessed valuation.

Additional information regarding the City of Farmington's long-term debt can be found in Note 6 and Note 7 to the Basic Financial Statements.

Economic Factors

The following key economic indicators reflect the economic environment of the City.

Sales Tax. The City of Farmington prior to Fiscal Year 2007 had experienced an average 4% annual growth in sales tax receipts. Beginning in Fiscal Year 2008 this average began to decline. For the fiscal year ending September 30, 2009, the City saw a 3% decrease in sales tax receipts. This was attributable to the state of the economy. The national economy entered a recession in December 2007 and was not expected to return to growth near prior averages until 2010. The City of Farmington generally lags the national economy about 12 months. Therefore, the City is guarded in its budgeted growth and expenditures for the ensuing fiscal year. Without an upturn in the economy and sales tax trend, those operations of the City of Farmington heavily dependent on sales tax will be required to explore all avenues available for a reduction in expenditures.

Property Tax. Property taxes within the City of Farmington have decreased for the upcoming fiscal year from \$0.4737 to \$0.4363 per \$100 of assessed valuation. The property tax previously consisted of two levies, one for general revenue and one for debt service. The debt service levy was to pay for a governmental bond for the construction of the police facility. The final payment of this bond is due in the upcoming fiscal year and reserves are already in place to make this payment. Therefore, the debt service portion of the tax levy has ceased.

Transient Guest Tax. In April 2009, the residents of the City of Farmington passed a five percent transient guest tax. This tax is to be used for marketing and tourism for the City of Farmington. Collections of this tax began October 2009.

Unemployment. The City of Farmington unemployment rate for September 2009 was 10.8%. This rate has continued to rise and was last published in December 2009 as 11.1%. These averages are above the State average of 9.3% and 9.2% for the respective periods. This is primarily due to decreases in the construction, manufacturing, retail trade, administrative and support services, and food service sectors.

Funding. The City of Farmington continues to receive funding for capital projects through its traditional grant sources. It is anticipated that funding levels will not be affected by the economy.

Power Rates. The City of Farmington purchases power from the Missouri Public Utility Alliance - Public Energy Pool. The Pool expects wholesale electric rates to decline slightly through 2011 and then experience gradual increases. Current projections show that the rates will not increase back to the 2009 level until 2016. However, the Environmental Protection Agency continues to propose legislation and regulations that may negatively impact this forecast. Continued monitoring of the situation and power costs will be necessary. It is imperative for continued operations that the City maintains the proper power cost to power rate ratio.

Budget Highlights for the Fiscal Year Ending September 30, 2010

Governmental Activities

Budgeted revenues in the governmental funds are expected to rise by 7.5% to \$11,493,200. Much of this increase is driven by the addition of the Transient Tax and establishment of a corresponding Tourism Tax Fund. Based on economic reports, sales tax is budgeted to have a two percent increase, but must be closely monitored and expenditure adjustments made when necessary. A four percent payment in lieu of taxes is budgeted from the Utility and Sewer Funds payable to the General Fund.

Budgeted expenditures in the General Fund are expected to rise approximately 7% to \$6,645,850. The largest increments are in personnel related expenditures and capital expenditures. The budget provided for a 2% cost of living increase in pay for all employees with additional increases for employees whose positions were reclassified and step increases for those employees who were eligible. The cost of insurance and benefits remained largely unchanged for the upcoming year. Governmental funds capital investment continues for the City at \$7,855,500. The primary projects budgeted include continued expansion of the East Wastewater Treatment Plant, continuation of radionuclide remediation, construction of a new fire station, and additional street and sidewalk improvements.

Business-type Activities

Budgeted revenues in the proprietary funds are expected to rise by 1.8% to \$23,755,250. Much of this increase is driven by increases in the water and sewer rates. To address anticipated increased operational costs due to current regulations and capacity increases and necessary capital investment, the customer charge for water and sewer has increased. Electric rates remain unchanged.

Budgeted operating expenditures in the Civic Complex Fund are expected to increase approximately 13%. This increase is split between personnel and standard operating costs and is higher than typically seen from year to year due to three additional months of operations for the Senior Center being in the budget. Budgeted operating expenditures (net of cost of goods sold) in the Utility Fund Electric Department are expected to decrease approximately 15%. This decrease is largely due to a budgeted decrease of \$105,000 for electric equipment repair and maintenance. This budget line was increased in FY2009 for repair of the generator on Overall Road and is being reduced back to pre-2009 levels. Power purchase costs are budgeted for a 1% increase over the prior year actual. This increase is absorbed by minor reductions in other line items to allow electric rates to remain steady. Budgeted operating expenditures in the Utility Fund Water Department are expected to increase approximately 15% over the prior year actual. These increases are primarily due to a prior year decrease in engineering and contracts and an increase in FY2010 operating costs due to the addition of a new well and the radionuclide treatment program. These anticipated increases are offset by an increased customer charge and a reduction in the amount of capital expenditures. Sewer Fund expenditures are budgeted to increase 8% over prior year actual. The increases are due to increases in personnel and operating expenditures. The expansion of the East Wastewater Treatment Plant is set to come online in mid Fiscal Year 2010. An increased customer charge was implemented to help offset these increases.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Farmington, 110 West Columbia Street, Farmington, Missouri 63640.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF NET ASSETS**

September 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash & Cash Equivalents	\$ 1,558,061	\$ 4,034,176	\$ 5,592,237
Investments	12,000	0	12,000
Accounts Receivable	1,443,500	2,974,476	4,417,976
Prepaid Expenses	33,308	62,566	95,874
Due To/From Other Funds	690,193	(690,193)	0
Prepaid Interest	68,782	0	68,782
Inventory	0	1,269,970	1,269,970
Total	<u>3,805,844</u>	<u>7,650,995</u>	<u>11,456,839</u>
<u>NONCURRENT ASSETS</u>			
Restricted Assets:			
Cash & Cash Equivalents	2,470,998	517,040	2,988,038
Investments	5,507,905	3,358,437	8,866,342
Unamortized Bond Issue Costs	111,629	34,732	146,361
Advances to Other Funds	135,000	(135,000)	0
Capital Assets (Net)	25,193,182	40,472,295	65,665,477
Total	<u>33,418,714</u>	<u>44,247,504</u>	<u>77,666,218</u>
TOTAL ASSETS	37,224,558	51,898,499	89,123,057
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	732,361	1,460,031	2,192,392
Accrued Salaries	206,480	111,377	317,857
Accrued Interest	40,414	50,608	91,022
Taxes Payable	0	49,147	49,147
Builder's Deposits	0	78,431	78,431
Other Payable	93,036	87,592	180,628
Current Portion of Long-Term Debt	1,588,176	782,800	2,370,976
Total	<u>2,660,467</u>	<u>2,619,986</u>	<u>5,280,453</u>
<u>LONG-TERM LIABILITIES</u>			
Customer Deposits Payable	0	359,080	359,080
Due to State of Missouri - State Revolving Fund	0	2,679,569	2,679,569
Bonds Payable	65,000	3,815,000	3,880,000
Capital Leases Payable	9,637,584	5,211,416	14,849,000
Less Current Maturities	(1,588,176)	(782,800)	(2,370,976)
Total	<u>8,114,408</u>	<u>11,282,265</u>	<u>19,396,673</u>
TOTAL LIABILITIES	10,774,875	13,902,251	24,677,126
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	20,715,195	31,445,879	52,161,074
Restricted	2,535,653	1,248,722	3,784,375
Unrestricted	3,198,835	5,301,647	8,500,482
TOTAL NET ASSETS	<u>\$ 26,449,683</u>	<u>\$ 37,996,248</u>	<u>\$ 64,445,931</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF ACTIVITIES**

Year Ended September 30, 2009

					Net (Expense) Revenue and Changes in Net Assets - Primary Government		
	Expenses	Charges for Services	Capital Grants	Contributions & Operating Grants	Governmental Activities	Business-Type Activities	Totals
FUNCTIONS/PROGRAMS							
Primary Government:							
Governmental Activities:							
General Government	\$ 1,163,087	\$ 592,420	\$ 205,366	\$ 26,681	\$ (338,620)	\$ 0	\$ (338,620)
Public Safety	3,019,667	0	0	100,747	\$ (2,918,920)	0	(2,918,920)
Streets and Public Works	2,063,510	0	0	26,282	\$ (2,037,228)	0	(2,037,228)
Culture and Recreation	928,522	62,298	0	10,036	\$ (856,188)	0	(856,188)
Total Governmental Activities	7,174,786	654,718	205,366	163,746	(6,150,956)	0	(6,150,956)
Business-Type Activities:							
Airport	383,491	171,398	727,346	61,764	0	577,017	577,017
Electric	18,529,589	18,756,499	0	12,778	0	239,688	239,688
Water	1,051,594	1,329,366	0	0	0	277,772	277,772
Sewer	1,822,347	1,644,504	0	4,123	0	(173,720)	(173,720)
Civic Complex	2,008,078	1,436,210	0	270,496	0	(301,372)	(301,372)
Total Business-Type Activities	23,795,099	23,337,977	727,346	349,161	0	619,385	619,385
Total Primary Government	\$ 30,969,885	\$ 23,992,695	\$ 932,712	\$ 512,907	(6,150,956)	619,385	(5,531,571)
General Revenues:							
Taxes							
Sales Taxes					6,444,342	0	6,444,342
Real and Personal Property Taxes					829,646	0	829,646
Motor Fuel and Vehicle Taxes					520,339	0	520,339
Gross Receipts Tax					468,770	0	468,770
TIF Proceeds					413,234	0	413,234
Administrative Pilot Payment					865,300	0	865,300
Interest Income					44,302	210,380	254,682
Other					82,731	0	82,731
Gain on Sale of Asset					13,732	0	13,732
Transfers					(1,110,223)	1,110,223	0
Total General Revenues and Transfers					8,572,173	1,320,603	9,892,776
Change in Net Assets for the Year					2,421,217	1,939,988	4,361,205
Net Assets - October 1, 2008					24,028,466	36,056,259	60,084,725
Net Assets - September 30, 2009					\$ 26,449,683	\$ 37,996,247	\$ 64,445,930

The accompanying notes are an integral part of these financial statements.

**CITY OF FARMINGTON, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2009

	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	
ASSETS					
Cash & Cash Equivalents	\$ 1,558,061	\$ 0	\$ 0	\$ 0	\$ 1,558,061
Investments	12,000	0	0	0	12,000
Accounts Receivable	824,740	0	464,961	153,799	1,443,500
Prepaid Expenses	33,308	0	0	0	33,308
Prepaid Interest	0	0	68,782	0	68,782
Due From Other Funds	978,934	0	0	267,963	1,246,897
Advances To Other Funds	285,000	0	0	0	285,000
Restricted Assets:					
Cash & Investments	0	538,826	7,176,291	263,786	7,978,903
TOTAL ASSETS	\$ 3,692,044	\$ 538,826	\$ 7,710,033	\$ 685,548	\$ 12,626,451
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 88,198	\$ 0	\$ 640,603	\$ 3,560	\$ 732,361
Accrued Salaries	206,480	0	0	0	206,480
Accrued Interest Payable	0	40,414	0	0	40,414
Due to Other Funds	107,223	58,741	160,740	230,000	556,704
Advances From Other Funds	0	0	0	150,000	150,000
Other Liabilities	91,308	0	0	1,728	93,036
TOTAL LIABILITIES	493,209	99,155	801,343	385,288	1,778,995
FUND BALANCES					
Unrestricted	2,913,835	0	0	0	2,913,835
Reserved for Advances	285,000	0	0	0	285,000
Restricted	0	439,671	6,908,690	300,260	7,648,621
TOTAL FUND BALANCES	3,198,835	439,671	6,908,690	300,260	10,847,456
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,692,044	\$ 538,826	\$ 7,710,033	\$ 685,548	\$ 12,626,451

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

Total Fund Balance - Total Governmental Funds		\$ 10,847,456
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.		
Governmental capital assets	\$ 35,880,698	
Less accumulated depreciation	(10,687,516)	25,193,182
Long-term liabilities, including leases payable and loans payable are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds.		
Leases Payable	(9,637,584)	
Bonds Payable	(65,000)	
Bond Issue Costs	111,629	(9,590,955)
Net Assets of Governmental Activities		\$ 26,449,683

The accompanying notes are an integral part of these financial statements.

CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS

Year Ended September 30, 2009

	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Total Governmental Funds
REVENUES					
Sales Tax	\$ 3,271,013	\$ 0	\$ 3,173,329	\$ 0	\$ 6,444,342
Real and Personal Property Tax	757,059	72,587	0	0	829,646
Grants and Donations	157,746	0	205,366	6,000	369,112
Charges for Services	62,298	0	0	0	62,298
Motor Fuel and Vehicle Tax	520,339	0	0	0	520,339
Fines and Forfeitures	451,852	0	0	0	451,852
Utility & Gross Receipts Tax	468,770	0	0	0	468,770
Licenses and Permits	140,568	0	0	0	140,568
Interest Income	16,292	7,017	17,699	3,294	44,302
TIF Proceeds From Other Governments	0	0	0	413,234	413,234
Administrative Pilot Payment	865,300	0	0	0	865,300
Other	73,182	0	0	9,549	82,731
Total Operating Revenues	6,784,419	79,604	3,396,394	432,077	10,692,494
EXPENSES					
General Government					
Administration	937,510	0	0	200,738	1,138,248
Buildings and Maintenance	0	0	0	0	0
Public Safety					
Police	1,977,309	4,163	0	0	1,981,472
Municipal Court	77,800	0	0	0	77,800
Fire	749,649	0	0	0	749,649
Streets and Public Works					
Street	677,859	87,996	0	0	765,855
Public Works	288,337	0	45,861	1,557	335,755
Maintenance	342,432	0	0	0	342,432
Culture and Recreation					
Park	570,814	0	0	0	570,814
Library	275,450	0	0	0	275,450
Capital Outlay	289,646	0	4,497,339	74,167	4,861,152
Debt Service-Principal	0	439,100	0	0	439,100
Total Expenses	6,186,806	531,259	4,543,200	276,462	11,537,727
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	597,613	(451,655)	(1,146,806)	155,615	(845,233)
OTHER FINANCING SOURCES (USES)					
Transfer In	0	423,219	620,000	400,571	1,443,790
Transfer Out	(173,602)	0	(2,145,410)	(235,000)	(2,554,012)
Gain on Sale of Asset	11,689	0	2,043	0	13,732
Lease Proceeds	0	0	7,380,000	0	7,380,000
Cost of Issuance	0	0	(111,629)	0	(111,629)
Total Other Financing Sources And Uses	(161,913)	423,219	5,745,004	165,571	6,171,881
NET CHANGE IN FUND BALANCES	435,700	(28,436)	4,598,198	321,186	5,326,648
FUND BALANCES - OCTOBER 1, 2008	2,763,135	468,107	2,310,492	(20,926)	5,520,808
FUND BALANCES - SEPTEMBER 30, 2009	<u>\$ 3,198,835</u>	<u>\$ 439,671</u>	<u>\$ 6,908,690</u>	<u>\$ 300,260</u>	<u>\$ 10,847,456</u>

The accompanying notes are an integral part of these financial statements.

City of Farmington, Missouri
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

Year Ended September 30, 2009

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 5,326,648
Amounts Reported for Governmental Activities in the Statement of Activities and Changes in Net Assets were different because:	
Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets were allocated over their estimated useful lives as depreciation expense:	
Capital outlay	4,861,152
Depreciation	(937,312)
Principal payments on long-term liabilities of governmental funds are expensed. However on the Government-Wide Statement of Activities they are shown as a reduction of debt.	439,100
Governmental funds report lease proceeds as revenue and cost of issuance as expenses. However, in the Government-Wide Statement of Activities, the lease is recorded as a liability with the payments shown as a reduction of debt.	
Lease Proceeds	(7,380,000)
Unamortized Cost of Issuance	111,629
Change in Net Assets of Governmental Activities as Reported on the Statement of Activities	<u>\$ 2,421,217</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

September 30, 2009

	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>ASSETS</u>					
<u>CURRENT ASSETS</u>					
Cash & Cash Equivalents	\$ -	\$ 3,779,857	\$ 0	\$ 254,320	\$ 4,034,176
Accounts Receivable	503,985	2,234,442	208,236	27,813	2,974,476
Prepays	707	51,511	6,042	4,306	62,566
Inventory	40,248	1,202,927	26,795	0	1,269,970
Total	544,940	7,268,736	241,073	286,439	8,341,188
<u>NONCURRENT ASSETS</u>					
Restricted Assets:					
Cash & Cash Equivalents	0	0	517,040	0	517,040
Investments	0	0	2,865,789	492,648	3,358,437
Unamortized Bond Issue Costs	0	34,732	0	0	34,732
Due From Other Funds	0	0	0	58,741	58,741
Advances To Other Funds	0	0	0	0	0
Capital Assets (Net of Accumulated Depreciation)	5,205,022	12,346,057	11,146,509	11,774,707	40,472,295
Total	5,205,022	12,380,789	14,529,337	12,326,096	44,441,245
TOTAL ASSETS	5,749,962	19,649,526	14,770,410	12,612,535	52,782,433
<u>LIABILITIES</u>					
<u>CURRENT LIABILITIES</u>					
Accounts Payable	22,408	1,296,561	110,883	30,179	1,460,031
Accrued Salaries	1,673	56,113	21,333	32,258	111,377
Accrued Interest	0	0	0	50,608	50,608
Taxes Payable	0	49,147	0	0	49,147
Due to Other Funds	705,761	0	0	43,173	748,934
Builder's Deposits	0	78,431	0	0	78,431
Other Liabilities	149	17,962	56,042	13,439	87,592
Current Portion of Long-Term Debt	0	338,000	0	444,800	782,800
Total	729,991	1,836,214	188,257	614,457	3,368,920
<u>LONG-TERM LIABILITIES</u>					
Customer Deposits Payable	0	359,080	0	0	359,080
Advances From Other Funds	0	0	0	135,000	135,000
Due to State of Missouri - State Revolving Fund	0	0	2,679,569	0	2,679,569
Revenue Bonds Payable	0	0	3,815,000	0	3,815,000
Capital Leases Payable	0	2,384,000	0	2,827,416	5,211,416
Less Current Maturities	0	(338,000)	0	(444,800)	(782,800)
Total	0	2,405,080	6,494,569	2,517,616	11,417,265
TOTAL LIABILITIES	729,991	4,241,294	6,682,827	3,132,073	14,786,185
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	5,205,022	9,962,057	7,331,509	8,947,291	31,445,879
Restricted	0	0	756,074	492,648	1,248,722
Unrestricted	(185,051)	5,446,175	0	40,523	5,301,647
TOTAL NET ASSETS	<u>\$ 5,019,971</u>	<u>\$ 15,408,232</u>	<u>\$ 8,087,583</u>	<u>\$ 9,480,462</u>	<u>\$ 37,996,248</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

Year Ended September 30, 2009

	Enterprise Funds				
	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>OPERATING REVENUES</u>					
Charges for Services:					
Airport Charges	\$ 171,398	\$ 0	\$ 0	\$ 0	\$ 171,398
Electric Charges	0	18,756,499	0	0	18,756,499
Water Charges	0	1,329,366	0	0	1,329,366
Sewer Charges	0	0	1,644,504	0	1,644,504
Civic Complex Charges	0	0	0	1,436,210	1,436,210
Total Operating Revenues	171,398	20,085,865	1,644,504	1,436,210	23,337,977
<u>OPERATING EXPENSES</u>					
Airport Expenses	219,462	0	0	0	219,462
Electric Expenses	0	17,925,905	0	0	17,925,905
Water Expenses	0	871,551	0	0	871,551
Sewer Expenses	0	0	1,116,006	0	1,116,006
Civic Complex Expenses	0	0	0	1,510,519	1,510,519
Depreciation	164,028	686,313	467,566	387,345	1,705,252
Total Operating Expenses	383,490	19,483,769	1,583,572	1,897,864	23,348,696
OPERATING INCOME (LOSS)	(212,092)	602,096	60,932	(461,654)	(10,718)
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Grant Income	727,346	12,778	4,123	0	744,247
Contributions	61,764	0	0	6,155	67,919
Interest Income	45	42,957	167,378	0	210,380
Senior Center Building Donation	0	0	0	264,341	264,341
Cost of Issuance and Bond Fees	0	(27,075)	(22,333)	(1,285)	(50,693)
Interest Expense	0	(70,339)	(216,442)	(108,929)	(395,710)
Total Nonoperating Revenues (Expenses)	789,155	(41,679)	(67,274)	160,282	840,484
NET INCOME (LOSS) BEFORE TRANSFERS	577,062	560,417	(6,342)	(301,372)	829,765
Transfer In	0	508,772	447,810	538,642	1,495,223
Transfer Out	0	(385,000)	0	0	(385,000)
Total Transfers	0	123,772	447,810	538,642	1,110,223
CHANGE IN NET ASSETS	577,062	684,189	441,468	237,270	1,939,989
NET ASSETS - OCTOBER 1, 2008	4,442,909	14,724,043	7,646,115	9,243,192	36,056,259
NET ASSETS - SEPTEMBER 30, 2009	\$ 5,019,971	\$ 15,408,232	\$ 8,087,583	\$ 9,480,462	\$ 37,996,248

The accompanying notes are an integral part of these financial statements.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Year Ended September 30, 2009

	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 182,375	\$ 19,969,577	\$ 1,617,287	\$ 1,436,401	\$ 23,205,640
Payments to Suppliers	(201,073)	(19,573,732)	(1,426,760)	(2,134,588)	(23,336,153)
Payments to Employees	26,550	966,209	362,944	642,886	1,998,589
Net Cash Provided (Used) By Operating Activities	7,852	1,362,054	553,471	(55,301)	1,868,076
<u>CASH FLOWS FROM NONCAPITAL FINANCING</u>					
Transfers In	-	123,772	447,810	538,642	1,110,224
Contributions	61,764	-	-	6,155	67,919
Loans To/From Other Funds	657,376	-	(220,051)	119,432	556,757
Nonoperating Grant Receipts	228,055	12,777	4,123	-	244,955
Net Cash Provided (Used) By Nonoperating Activities	947,195	136,549	231,882	664,229	1,979,855
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Principal Payments on Long-Term Debt	-	(322,000)	(702,500)	(430,900)	(1,455,400)
Interest Paid on Debt	-	(70,339)	(216,442)	(117,064)	(403,845)
Bond Fees	44	(21,499)	(22,333)	(1,285)	(45,073)
Cost of Issuance	-	-	-	-	-
Refinancing of Capital Lease	-	-	-	-	-
Acquisition of Capital Assets	(955,350)	(591,890)	(237,707)	(175,658)	(1,960,605)
Net Cash Used By Capital And Related Financing Activities	(955,306)	(1,005,728)	(1,178,982)	(724,907)	(3,864,923)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemption of Investments	-	-	164,394	16,997	181,391
Investment Earnings	-	42,958	167,379	-	210,337
Net Cash Provided by Investing Activities	-	42,958	331,773	16,997	391,728
 Net Change in Cash and Cash Equivalents	 (259)	 535,833	 (61,856)	 (98,982)	 374,736
Balances at October 1, 2008	259	3,244,024	578,896	353,302	4,176,481
Balances at September 30, 2009	<u>\$ -</u>	<u>\$ 3,779,857</u>	<u>\$ 517,040</u>	<u>\$ 254,320</u>	<u>\$ 4,551,217</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (212,092)	\$ 602,096	\$ 60,932	\$ (461,654)	\$ (10,718)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation & Amortization Expenses	164,028	686,313	467,566	387,345	1,705,252
Changes in Assets and Liabilities					
Accounts Receivable	10,977	(50,589)	(27,217)	191	(66,638)
Prepays	48	(3,819)	(1,523)	(4,306)	(9,600)
Inventory	23,784	(27,672)	(3,627)	-	(7,515)
Accounts Payable & Other Payables	20,944	219,172	57,531	11,724	309,371
Customer and Builder Deposits Payable	-	(65,699)	-	-	(65,699)
Accrued Salaries and Compensated Absences	163	2,252	(191)	11,399	13,623
Net Cash Provided (Used) by Operating Activities	<u>\$ 7,852</u>	<u>\$ 1,362,054</u>	<u>\$ 553,471</u>	<u>\$ (55,301)</u>	<u>\$ 1,868,076</u>

NONCASH TRANSACTIONS:

The Civic Complex Fund received a donation of a building with a fair market value of \$264,341.

The accompanying notes are an integral part of these financial statements.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Farmington, Missouri currently operates as a third class city of the State of Missouri. The City operates as a Mayor, Council-City Administrator form of government and provides municipal services to its residents.

The more significant of the City's accounting policies are described as follows:

The Reporting Entity

Under generally accepted accounting principals, the reporting entity consists of the City and other organizations for which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Based upon this criterion, the City has no component units and the accompanying financial statements represent only the City of Farmington.

The Industrial Development Authority of the City of Farmington (IDA) is considered to be a related organization. The IDA is excluded from the reporting entity because the City's accountability does not extend beyond appointing a voting majority of the IDA's board members.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statements of net assets and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenue, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statements 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. Program revenues include: (1) charges for services which report fees, fines, and other charges to users of the City's services; (2) contributions, operating and capital grants which finance annual operating activities and fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns with composite columns for non-major funds.

Fund Types and Major Funds

Governmental Fund Types:

The City reports the following major governmental funds:

General Fund - The General Fund is the primary fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Fund Types and Major Funds-continued

Governmental Fund Types-continued:

Capital Project Fund - Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary and trust funds.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt including capital lease obligations principal, interest and related costs.

Special Allocation Fund - The Special Allocation Fund is used to account for the financial resources derived from the TIF districts.

Proprietary Fund Types:

Enterprise funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City has the following enterprise funds: Airport Fund, Utility Fund (Electric and Water), Sewer Fund and Civic Complex Fund.

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) applicable to governmental entities. The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both available and measurable. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligations bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: property taxes, sales and use taxes, franchise taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

The City has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for proprietary funds. The proprietary funds apply all applicable GASB pronouncements as well as statements and interpretations of FASB, the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation-continued

services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

It is the City's policy to eliminate all inter-fund activity on the entity wide financial statements.

Cash and Investments

For the purpose of reporting, "cash" and "restricted cash" includes all demand and savings accounts, certificates of deposit, and short-term investments with an original maturity of three months or less.

Inventories

The enterprise funds have parts and supplies on hand for use in maintaining the utility systems; and also aviation fuel for resale at the airport. These items are recorded at cost and expensed as they are used.

Capital Assets and Depreciation

The City's property, plant and equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. If historical cost was not available, the cost was estimated. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets are depreciated using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20 - 50
Improvements/Infrastructure	5 - 50
Water and Wastewater Infrastructure	15 - 40
Furniture, Vehicles and Equipment	5 - 15

Long-Term Debt and Bond Discounts/Premiums and Issuance Costs

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, and bond discounts or premiums are capitalized and amortized over the terms of the respective bonds.

Budgets and Budgetary Accounting

In accordance with Chapter 67, RSMo, The City adopts an annual operating budget, which can be amended by the Council throughout the year. Formal budgetary accounting is employed as a management control for all funds of the City. The budget for the year ended September 30, 2009 was prepared and adopted using the modified accrual basis of accounting for governmental funds and accrual accounting for proprietary funds.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the City Council, budgetary transfers between departments can be made. The budgeted financial statements represented in the report reflect final budget authorization, including all amendments.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Compensated Absences

City employees earn varying amounts of paid vacation and sick leave benefits based on their length of service with the City. Vacation days may not be carried over or accrued past one year. Accumulated unpaid vacation is payable to employees upon termination. Accumulated sick leave is payable only under certain circumstances. Compensated absences are reported in accrued salaries in the government-wide and fund financial statements.

Post-Employment Benefits

The City does not provide any type of post employment benefits to its employees except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the City.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and mailed to residents in November, and are payable on or before January 1 of the following year. All unpaid taxes then become delinquent. Property tax revenues are recognized when billed.

Use of Estimates

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

Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources are set aside for debt service, capital projects and other special purposes, and are classified as restricted on the balance sheet, and on the statement of net assets, because they are maintained in separate bank accounts and their use is limited by debt covenants or other statutory provisions.

Fund Equity

The unrestricted fund balances for governmental funds represent the amount available for budgeting future operations. The restricted fund balance for governmental funds represents the amount that has been legally identified for specific purposes. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Unrestricted net assets for proprietary funds represent the assets available for future operations or distribution. Restricted net assets retained earnings for proprietary funds represent the assets that have been legally identified for specific purposes.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits include all funds held in checking accounts, money market accounts, and cash on hand. Unrestricted investments include certificates of deposit with original maturities of greater than three months. For cash flows purposes these are considered cash equivalents. Deposits and investments are stated at cost, which approximates market. Restricted investments include amounts held in trust as required by certain bond covenants.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS – continued

The City complies with Missouri state statutes and allows investments in obligations of the United States, the state of Missouri, certain bonds of political subdivisions within Missouri, and out-of-state municipal bonds, provided they are rated in the highest nationally ranked category.

Missouri statutes require that the depository institution must collateralize all funds on deposit in financial institutions with appropriate securities to the extent not provided by FDIC insurance. At September 30, 2009 the deposits and investments of the City were fully insured or collateralized by securities held in the City's name.

Governmental Accounting Standards Board Statement No. 40 requires that deposits and investments be classified by credit risk.

Classification of deposits and investments by credit risk are as follows:

Deposits

Category 1- Insured or collateralized, with securities held by the entity or by its agent in the entity's name.

Category 2- Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3- Deposits which are uninsured or uncollateralized.

Investments

Category 1- Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2- Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.

Category 3- Uninsured and unregistered, with securities held by the counter part, or by its trust department or agent, but not in the entity's name.

	Category 1	Category 3	Uncategorized	Total
Cash Deposits	\$ 8,402,438	\$ 0	\$ 0	\$ 8,402,438
Bank Money Market Accounts	173,251	0	0	173,251
Certificates of Deposit	17,000	0	0	17,000
Stock Mutual Funds	0	886,058	0	886,058
Guaranteed Investment Contracts	0	7,924,356	0	7,924,356
Bond Mutual Funds	0	54,400	0	54,400
Cash on Hand	0	0	1,114	1,114
Totals	<u>\$ 8,592,689</u>	<u>\$ 8,864,814</u>	<u>\$ 1,114</u>	<u>\$ 17,458,617</u>

Category 3 investments are held in trust for the City by UMB Bank. These investments are in a large investment pool. The pool has United States securities that collateralize the entire pool balance, including the amount shown above. These funds are all rated AAA or AAAM.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 3 - ACCOUNTS RECEIVABLE

In the governmental funds, accounts receivable consists primarily of sales tax revenue and gas tax due from the state, and municipal court receivables. These receivables are recorded when they are both measurable and available.

In the proprietary funds accounts receivable consists of amounts due from MODOT grant reimbursements, customers for utility services provided and civic center user fees. These receivables are recorded when the earning process is complete and services have been provided.

The City considers these accounts receivable fully collectible, except the municipal court receivables. Therefore, only an allowance for municipal court receivables is recorded herein in the amount of \$190,194.

NOTE 4 - CAPITAL ASSETS

Changes in fixed assets are as follows for the year ended September 30, 2009:

	Balance, September 30, 2008	Additions	Deletions	Balance, September 30, 2009
Governmental Activities:				
Capital Assets, not depreciated				
Land	\$ 1,262,757	\$ 700,186	\$ 0	\$ 1,962,943
Construction in Progress	481,360	2,926,980	0	3,408,340
	<u>1,744,117</u>	<u>3,627,166</u>	<u>0</u>	<u>5,371,283</u>
Capital Assets, depreciated				
Buildings	3,213,326	110,174	0	3,323,500
Land Improvements	408,404	41,499	0	449,903
Infrastructure	21,106,236	852,833	0	21,959,069
Furniture, Machinery & Equip	1,324,157	42,031	0	1,366,188
Vehicles	<u>3,223,307</u>	<u>187,449</u>	<u>0</u>	<u>3,410,756</u>
	29,275,430	1,233,986	0	30,509,416
Less Accumulated Depreciation	<u>9,750,205</u>	<u>937,312</u>	<u>0</u>	<u>10,687,517</u>
Total Capital Assets, depreciated	<u>19,525,225</u>	<u>296,674</u>	<u>0</u>	<u>19,821,899</u>
Capital Assets, Net	\$ <u>21,269,342</u>	\$ <u>3,923,840</u>	\$ <u>0</u>	\$ <u>25,193,182</u>

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 4 – CAPITAL ASSETS-continued

	Balance, September 30, 2008	Additions	Deletions	Balance, September 30, 2009
Proprietary Activities:				
Capital Assets, not depreciated				
Land	\$ 650,686	\$ 0	\$ 0	\$ 650,686
Construction in Progress	177,325	495,554	177,325	495,554
Total Capital Assets, not depreciated	828,011	495,554	177,325	1,146,240
Capital Assets, depreciated				
Buildings	15,588,428	1,045,507	0	16,633,935
Infrastructure	38,625,462	540,385	0	39,165,847
Furniture, Machinery & Equip	1,413,613	320,826	0	1,734,439
Vehicles	1,301,967	0	0	1,301,967
	56,929,470	1,906,718	0	58,836,188
Less Accumulated Depreciation	17,804,880	1,705,253	0	19,510,133
Total Capital Assets, depreciated	39,124,590	201,465	0	39,326,055
Capital Assets, Net	\$ 39,952,601	\$ 697,019	\$ 177,325	\$ 40,472,295

The above schedules reflect a prior period adjustment of \$481,360. The adjustment was made to reclassify proprietary capital assets to governmental capital assets because the construction on the assets is still in progress and therefore should have been reported in the capital projects fund. The September 30, 2008 balance of the governmental construction in progress was \$0 before the adjustment. The September 30, 2008 balance of the proprietary construction in progress was \$658,685 before the adjustment.

Total depreciation expense for the year was \$2,642,564. Depreciation is charged to the following functions in the statement of activities: general government \$24,840, public safety \$210,746, streets and public works \$619,468, culture and recreation \$82,258, airport \$164,028, electric \$506,270, water 180,044, sewer \$467,565 and civic complex \$387,345.

NOTE 5 – OPERATING LEASE

The City has an operating lease on the land that the Senior Center is built on. The lease term is from October, 2009 to September, 2029. Annual rent is \$1,200. The future minimum rental payments for the future years ended September 30 are as follows: 2010 \$1,200; 2011 \$1,200; 2012 \$1,200; 2013 \$1,200; 2014 \$1,200; 2015-2019 \$6,000; 2020-2024 \$6,000; and 2025-2029 \$6,000.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 6 – LONG-TERM DEBT

General Obligation Bonds

Series 1998 is a \$900,000 original issue dated May 30, 1998. It is due in installments ranging from \$45,000 to \$95,000 through May 1, 2010. Interest is payable each November 1st and May 1st at 3.8% to 4.7%. The bond was used to build the police station. The balance at September 30, 2009 is \$65,000.

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

Year	Governmental Activities	
	Principal	Interest
2010	\$ 65,000	\$ 3,055

Revenue Bonds

Series 2000 Sewer System Refunding Revenue Bonds with an original issue of \$4,950,000 dated April 1, 2000 is due in annual installments ranging from \$45,000 to \$360,000 through July 1, 2021. Interest is payable each January 1st and July 1st at 4.6% to 5.7%. The balance at September 30, 2009 was \$3,815,000.

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

Year	Business-Type Activities	
	Principal	Interest
2010	\$ 280,000	\$ 211,504
2011	285,000	197,224
2012	290,000	182,618
2013	300,000	167,538
2014	305,000	150,288
2015-2019	1,645,000	477,110
2020-2021	710,000	60,990
Total	\$ 3,815,000	\$ 1,447,272

Due to the State of Missouri

When the City used the 2000 revenue bonds for construction, the State of Missouri put 70% of each construction payment into a debt reserve account at United Missouri Bank to be used if the City could not make debt service payments on the bonds. Each year, as the City makes principal payments on the bonds, it pays back the State 70% of that year's principal payment. No interest is due on this debt. In fiscal year 2009, the City paid back \$192,500. As of September 30, 2009, the balance due to the State was \$2,679,569.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 6 – LONG-TERM DEBT-continued

If the City makes all of the related principal payments, the amount owed to the State is as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>
2010	\$ 196,000
2011	199,500
2012	203,000
2013	210,000
2014	213,500
2015-2019	1,151,500
2020-2021	506,069
Total	<u>\$ 2,679,569</u>

Long-term debt activity for the year ended September 30, 2009 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental Activities:				
General Obligation Bonds	\$ 160,000	\$ 0	\$ 95,000	\$ 65,000
Business-Type Activities:				
Due to The State of MO	2,872,069	0	192,500	2,679,569
Revenue Bonds	<u>4,090,000</u>	<u>0</u>	<u>275,000</u>	<u>3,815,000</u>
Subtotal	<u>6,962,069</u>	<u>0</u>	<u>275,000</u>	<u>6,494,569</u>
Total	<u>\$ 7,122,069</u>	<u>\$ 0</u>	<u>\$ 370,000</u>	<u>\$ 6,559,569</u>

NOTE 7 - CAPITAL LEASES

Governmental Activities:

The City has entered into capital leases for the financing of various equipment and capital improvements for the General fund. A description of the property leased and detail of the leases are described below. Obligations under capital leases are stated at the original fair market value of the leased assets capitalized, less the payments made, discounted at the interest rate implicit in the lease.

Certificates of Participation

The City entered into a capital lease to finance capital improvements through a financing arrangement with UMB Bank. Under the arrangement, the bank issued certificates of participation in the amount of \$7,955,000 on July 1, 2005 to finance the improvements. The scheduled lease payments the City makes to the bank will be used to pay the debt service on these certificates. The lease payments are due in installments ranging from \$630,000 to \$1,710,000 which began in April 2006 and continue through April 2014. Interest is payable each October 1st and April 1st at 3.58%. The balance at September 30, 2009 is

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 7 - CAPITAL LEASES-continued

\$5,085,000. Of this amount \$2,257,584 is governmental debt and \$2,827,416 is business-type debt shown on the civic complex fund Statement of net assets.

Capital Lease Obligations

The fire station project lease was entered into on September 10, 2009 for \$4,305,000. Lease payments are due in monthly installments including interest ranging from \$12,000 to \$25,000 beginning October 20, 2009 until final payment on August 20, 2029. The balance at September 30, 2009 is \$4,305,000.

The wastewater project lease was entered into on September 10, 2009 for \$3,075,000. Lease payments are due in monthly installments including interest ranging from \$83,000 to \$93,000 beginning October 20, 2009 until final payment on August 20, 2012. The balance at September 30, 2009 is \$3,075,000.

Business-Type Activities:

The City entered into capital leases to finance the purchase of equipment, and system expansion of the wastewater treatment infrastructure. A description of the property leased and the details of the lease arrangements are described below. Obligations under capital leases are stated at the original fair market value of the leased assets capitalized, less the payments made, discounted at the interest rate implicit in the lease.

Capital Lease Obligations

The equipment lease was entered into on December 6, 2007 for \$2,964,000. Lease payments are due in monthly installments including interest ranging from \$25,000 to \$36,000 beginning December 20, 2007 until final payment on December 18, 2015. The balance at September 30, 2009 is \$2,384,000.

The wastewater system expansion lease was entered into on July 27, 2000 for \$500,000. Lease payments are due in monthly installments including interest ranging from \$42 to \$12,645 beginning November 22, 2000 until final payment on May 22, 2019. The City paid the lease off early in 2009. The balance at September 30, 2009 is \$0.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 7 - CAPITAL LEASES-continued

Future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009 are as follows:

Year Ended September 30,	Governmental Activities	Business-Type Activities	Total
2010	\$ 1,859,806	\$ 991,728	\$ 2,851,534
2011	1,863,812	990,860	2,854,672
2012	1,777,423	989,903	2,767,326
2013	744,938	987,441	1,732,379
2014	1,098,306	1,425,595	2,523,901
2015-2019	1,556,255	549,914	2,106,169
2020-2024	1,560,371	0	1,560,371
2025-2029	1,534,092	0	1,534,092
Total Minimum Lease Payments	11,995,003	5,935,441	17,930,444
Less Amount Representing Interest	2,357,419	724,025	3,081,444
Present Value of Minimum Lease Payments	\$ 9,637,584	\$ 5,211,416	\$ 14,849,000

Assets under capital leases are as follows at September 30, 2009:

Buildings with a cost of \$5,711,990 and accumulated depreciation of \$848,497; Machinery and Equipment with a cost of \$6,339,668 and accumulated depreciation of \$1,584,917; and Infrastructure with a cost of \$5,811,538 and accumulated depreciation of \$354,646. Total cost is \$17,863,196 and total accumulated depreciation of \$2,788,060.

NOTE 8 – INTEREST EXPENSE

During the year ended September 30, 2009, \$486,410 of interest has been directly charged to the various city functions on the statement of net assets. The charges are as follows: streets and public works \$86,987, public safety \$3,712, electric \$70,339, sewer \$216,443, and civic complex \$108,929. No interest has been capitalized or indirectly charged.

NOTE 9 - RISK MANAGEMENT

The City is exposed to a variety of accidental losses and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. The City is a member participant in a public entity risk pool, which is a corporate and political body created pursuant to Missouri Statute Chapter 537.70. The purpose of the risk pool is to provide liability protection to participating public entities, their officials, and employees. Annual contributions are collected based on actuarial projections to produce sufficient funds to pay losses and expenses. Should contributions not produce sufficient funds to meet its obligations, the risk pool is empowered with the ability to make special assessments. Members are jointly and severally liable for all claims against the risk pool.

The City has also purchased commercial insurance for other areas of risk that are not covered by the public entity risk pool that includes reasonable deductible amounts. The portion of uninsured loss is not expected to be significant with respect to the financial position of the City.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 10 - RETIREMENT PLAN

Plan Description

The City participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multi-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan, which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, section RSMo. 70.600-70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Service Code Section 401a and it is tax exempt.

LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS.

Funding Policy

The City's full time employees do not contribute to the pension plan. The City is required to contribute at an actuarially determined rate; the current rate is 9.4% (general), 8.5% (police), and 11.2% (fire), of annual covered payroll. The contribution requirements of plan members are determined by the City Council. The contribution provisions of the City are established by state statute.

Annual Pension Cost

For 2009, the City's annual pension cost of \$414,230 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2007 and/or February 29, 2008 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumption included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2009 was 15 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
6/30/2007	\$ 405,412	100%	\$0
6/30/2008	\$ 399,505	100%	\$0
6/30/2009	\$ 414,230	100%	\$0

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 10 - RETIREMENT PLAN-continued

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll
2/28/2007	\$ 9,334,585	\$ 8,885,478	\$ (449,107)	105%	\$ 4,108,330
2/29/2008	\$ 9,697,345	\$ 9,257,980	\$ (439,365)	105%	\$ 4,264,388
2/28/2009	\$ 8,334,013	\$ 9,858,043	\$ 1,524,030	85%	\$ 4,554,210
2/28/2009#	\$ 8,334,013	\$ 10,260,213	\$ 1,926,200	81%	\$ 4,554,210

After benefit changes.

Note: The above assets and actuarial accrued liability do not include assets and present value of benefits associated with the Benefit Reserve Fund and Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City, MO.

NOTE 11 - TAX INCREMENT FINANCING

On December 15, 2003, the City adopted tax increment allocation financing (TIF) to fund infrastructure improvements in a designated redevelopment area outlined in the plan entitled "The Karsch Boulevard and Downtown Farmington Redevelopment Plan for the Tax Increment Financing District." The TIF mechanism is authorized under Sections 99.800 through 99.865 of the RSMo. The redevelopment area qualifies as a conservation area under the RSMo.

The redevelopment plan proposes public activities (projects) to alleviate the existing conditions. The projects will convert existing deteriorated areas and demolish deteriorated, dilapidated buildings and provide areas for both public and private buildings, including administrative offices, housing and commercial buildings.

The total cost of all of the redevelopment projects is estimated to be approximately \$80,800,000. This includes the costs of property acquisition, historic preservation, electrical improvements, street and sidewalks, sanitary sewers, storm sewers, water improvements, housing construction, commercial building construction, construction of a county courthouse annex, downtown revitalization, parking improvements, planning, administration, engineering, legal, interest charges and contingencies.

The redevelopment plan proposes tax increment financing obligations to be authorized and issued by the City to fund a part of the redevelopment project cost. The total TIF obligations will not exceed \$14,800,000 to which will be added accrued interest, debt service reserve and issuance cost. The \$14,800,000 does not include payments-in-lieu of taxes (PILOTS) that will be made to individual taxing entities.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 11 - TAX INCREMENT FINANCING-continued

The redevelopment plan allocates a portion of local sales tax revenues generated by economic activities (EATS) within the redevelopment area to pay directly for projects costs or retire the TIF Obligations. In addition the EATS may be used to reimburse the City or other taxing jurisdictions for certain eligible costs incurred in constructing public improvements including, but not limited to, financing costs associated with the public improvements, legal costs, engineering fees, plan preparation costs and administration. The redevelopment projects and the TIF obligations were authorized for a 23-year period following their adoption. This plan anticipates funding redevelopment projects on a pay as you go method. The City, however, may decide to fund several projects up front, and therefore, the plan estimates an annual interest rate of 6.25% on the maximum amount of potential bonds to be issued.

It is anticipated that the redevelopment will support the issuance of \$14,800,000 of TIF Debt. However, it is the intent of this redevelopment plan to declare an amount equal to 100% of all PILOTs as surplus on an annual basis and pass through that amount to the individual taxing entities. This plan anticipates a total of \$14,708,580 of PILOTs. The actual PILOTs over the 23 year projected life of the TIF District will depend on the amount of actual development that occurs and may be more than the projected \$20,000,000, but will be limited to the amount of actual PILOTs collected. As of September 30, 2009 no TIF bonds had been issued by the City of Farmington.

October 2005 the City adopted an ordinance approving the redevelopment plan for the Highway 67 tax increment financing district. This is the second TIF district within the City. Subsequent amendments to the plan were made in 2006 and 2008. The amended plan consists of two redevelopment projects including retail and commercial development, as well as public infrastructure improvements. The total cost of the redevelopment project is estimated to be approximately \$124,050,000. The plan proposes to use community improvement districts as well as tax increment financing obligations to be authorized and issued by the City to fund a part of the redevelopment costs. The total TIF obligations will not exceed \$42,000,000 to which will be added accrued and capitalized interest, debt service reserve and issuance costs. The redevelopment projects and the TIF obligations were authorized for a 23-year period following their adoption. This plan anticipates funding redevelopment projects on a pay as you go method. The City, however, may decide to fund several projects up front, and therefore, the plan estimates an annual interest rate of 6.25% on the maximum amount of potential bonds to be issued.

It is the intent of this redevelopment plan to declare an amount equal to 100% of all PILOTs as surplus on one redevelopment project and 60% on the other on an annual basis and pass through that amount to the individual taxing entities. This plan anticipates a total of \$390,961 of PILOTs. The actual PILOTs over the 23 year projected life of the TIF District will depend on the amount of actual development that occurs and may be more than the projected \$390,961, but will be limited to the amount of actual PILOTs collected. As of September 30, 2009 no TIF bonds had been issued by the City of Farmington. The redevelopment plans allocate a portion of local sales tax revenues generated by economic activities (EATS) within the redevelopment area to pay directly for project costs or retire the TIF Obligations. In addition the EATS may be used to reimburse the City or other taxing jurisdictions for certain eligible costs incurred in constructing public improvements including, but not limited to, financing costs associated with the public improvements, legal costs, engineering fees, plan preparation costs and administration.

NOTE 12 – INDUSTRIAL REVENUE BONDS

The City has issued certain limited-obligation bonds for the express purpose of providing capital financing for a specific third party that is not a part of the City's financial reporting entity. At the same time, the City entered into a lease agreement with the Borrower, which contains provisions allowing the lessee to purchase the leased property for a nominal amount at the end of the lease term, or at earlier dates upon payment of amounts sufficient to redeem the entire related bond issued by the City, which are then outstanding. Capital Outlay is earmarked to have been purchased with these bonds to keep from having to

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 12 – INDUSTRIAL REVENUE BONDS-continued

pay property taxes on the items purchased. Instead of paying property taxes on this property, Payments In Lieu of Taxes are paid to the City and passed through to the Farmington Educational Foundation, Inc. for a twenty-year period. After twenty-years, the revenue bonds are considered to be paid off and the borrower will have to begin paying property taxes on all assets still owned that were purchased with these bonds.

NOTE 13 – RESTRICTED CASH AND INVESTMENTS

Certain proceeds of the City's bonds, as well as certain resources, are set aside for debt service, capital projects and other special purposes and are classified as restricted on the balance sheets, or the statement of net assets, because they are maintained in separate bank accounts and their use is limited by debt covenants or other statutory provisions.

NOTE 14 – RECLASSIFICATION OF NET ASSETS

A prior period adjustment was made to move sewer assets to the governmental funds. The construction in process on the sewer treatment plant was originally recorded as a sewer asset. However, because the debt is paid from the capital projects fund, the asset should have been included as a governmental asset. The table below reflects the changes to net assets due to this adjustment.

Governmental Funds

Net Assets, as Reported	\$23,547,106
Prior Period Adjustment	481,360
Net Assets, Restated	<u>\$24,028,466</u>

Proprietary Funds	Airport	Utility	Sewer	Civic Center	Total
Net Assets, as Reported	\$4,442,909	\$14,724,043	\$8,127,475	\$9,243,192	\$36,537,619
Prior Period Adjustment	0	0	(481,360)	0	(481,360)
Net Assets, Restated	<u>\$4,442,909</u>	<u>\$14,724,043</u>	<u>\$7,646,115</u>	<u>\$9,243,192</u>	<u>\$36,056,259</u>

NOTE 15 – INTER-FUND RECEIVABLES AND PAYABLES

As of September 30, 2009, the following inter-fund balances were owed between the various City funds:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General	Special Allocation	\$ 230,000
General	Airport	\$ 705,761
General	Civic Center	\$ 43,173
Civic Center	Debt Service	\$ 58,741
Advances from/to other funds:		
General	Special Allocation	\$ 150,000
General	Civic Center	\$ 135,000

Other than \$285,000, all balances will be reimbursed to the respective funds within one year.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 16 – INTER-FUND TRANSFERS

During the year ended September 30, 2009, the following inter-fund transfers took place between the various City funds:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Use</u>
Capital Projects	Debt Service	\$ 423,219	COP Payment
Special Allocation	Capital Projects	\$ 235,000	Fire Station
Utility Fund	Capital Projects	\$ 385,000	Infrastructure Projects
Capital Projects	Civic Complex	\$ 538,642	COP Payment
Capital Projects	Utility Fund	\$ 508,772	Capital Asset Donation
Capital Projects	Sewer	\$ 447,810	Construction in Progress
General	Special Allocation	\$ 173,602	TIF Projects
Capital Projects	Special Allocation	\$ 226,969	TIF Projects

The transfers shown from the general and capital projects funds to the special allocation fund represents those monies required to be transferred as incremental economic activity taxes under the tax increment financing development plan.

NOTE 17 – JOINT VENTURE

The City of Farmington is one of 35 Missouri municipalities in the Missouri Public Energy Pool (MoPEP) that participates in joint power projects through the Missouri Joint Municipal Utility Commission (MJMEUC). In most cases the pool members do not pay any costs of a project until they are receiving energy from the project. Once they begin receiving energy, all costs will be rolled into the participant's power bills. The participants are responsible for their share of the project even if they decide to leave the pool. The revenue collected from the participants is then used to pay interest and principal of the debt used to construct the various power projects. Financing used for construction ranges from lines of credit to project revenue bonds. Separate financial statements are available from MoPEP.

NOTE 18-SUBSEQUENT EVENTS

The City began collecting a 5% transient guest tax on hotel rooms. The tax went into effect October 1, 2009. By state statute, the City must contract with a general not-for-profit corporation to perform marketing functions that are solely related to tourism and conventions. The City has contracted with The Farmington Tourism and Convention Bureau.

The City continued with several capital projects which include the expansion of the east waste water treatment plant, the new fire station, construction of the airport taxiway, and the purchase of a warehouse.

Subsequent events have been reviewed through March 17, 2010, the date in which the financial statements were made available.

NOTE 19-CONCENTRATION OF REVENUE

Approximately 20 to 25% of the sales tax revenue of the City comes from one customer.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 20 -COMMITMENTS AND CONTINGENCIES

Environmental Protection Agency

The City is under a notice of administrative compliance from the Environmental Protection Agency regarding the City's responsibility to comply with the Clean Water Act. This has to do with the concentration of nickel found in sewage sludge samples that exceed the ceiling concentration amounts and failure to comply with the effluent limitations for ammonia. It is the City's opinion that the maximum potential liability for this noncompliance is approximately \$78,000.

Department of Natural Resources

The Missouri Department of Natural Resources (MDNR) has identified the City's public water system as in noncompliance with radionuclide requirements as specified in the Code of State Regulations. To address these violations, MDNR issued an administrative order to comply with the Missouri Safe Drinking Water Law. MDNR developed a compliance schedule with input from the City's consulting engineer. It is the City's opinion that it will take a commitment of approximately \$2,700,000 to comply with this order.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND**

Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Sales Tax	\$ 3,360,000	\$ 3,360,000	\$ 3,271,013	\$ (88,987)
Real and Personal Property Tax	749,250	749,250	757,059	7,809
Grants & Donations	114,775	150,575	157,746	7,171
Charges for Services	49,550	50,100	62,298	12,198
Motor Fuel and Vehicle Tax	558,000	500,000	520,339	20,339
Fines and Forfeitures	408,300	478,550	451,852	(26,698)
Licenses and Permits	151,800	151,800	140,568	(11,232)
Gross Receipts Tax	290,000	360,000	468,770	108,770
Interest Income	50,000	20,000	16,292	(3,708)
Administrative Pilot Payment	680,800	865,400	865,300	(100)
Other	69,850	71,050	73,182	2,132
Total Revenue	6,482,325	6,756,725	6,784,419	27,694
<u>EXPENDITURES</u>				
<u>Current:</u>				
General Government				
Administration	890,700	914,700	937,510	(22,810)
Buildings and Maintenance	-	-	0	-
Public Safety				
Police	2,016,000	2,031,500	1,977,308	54,192
Municipal Court	81,150	82,450	77,800	4,650
Fire	751,650	781,750	749,649	32,101
Streets and Public Works				
Street	628,800	661,800	677,859	(16,059)
Public Works	296,450	303,000	288,337	14,663
Maintenance	338,500	330,050	342,432	(12,382)
Culture and Recreation				
Park	555,600	580,100	570,814	9,286
Library	270,970	294,000	275,450	18,550
Capital Outlay	498,550	478,550	289,647	188,903
Debt Service-Principal	-	-	0	-
Total Expenses	6,328,370	6,457,900	6,186,806	271,094
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	153,955	298,825	597,613	298,788
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	0	0	0	0
Transfers Out	(257,650)	(1,092,150)	(173,602)	918,548
Gain on Sale of Asset	-	11700	11689	(11)
Total Other Financing Sources(Uses)	(257,650)	(1,080,450)	(161,913)	918,537
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ (103,695)	\$ (781,625)	435,700	\$ 1,217,325
FUND BALANCE, OCTOBER 1, 2008			2,763,135	
FUND BALANCE, SEPTEMBER 30, 2009			\$ 3,198,835	

The accompanying notes are an integral part of these financial statements.

CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-BUDGET AND ACTUAL
DEBT SERVICE FUND

Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Real Estate and Property Taxes	\$ 70,500	\$ 70,500	\$ 72,587	\$ 2,087
Interest Income	<u>25,500</u>	<u>5,100</u>	<u>7,017</u>	<u>1,917</u>
Total Revenue	96,000	75,600	79,604	4,004
<u>EXPENDITURES</u>				
Debt Service Interest and Fees	212,250	99,800	92,159	7,641
Debt Service Principal	<u>870,000</u>	<u>436,000</u>	<u>439,100</u>	<u>(3,100)</u>
Total Expenditures	<u>1,082,250</u>	<u>535,800</u>	<u>531,259</u>	<u>4,541</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(986,250)	(460,200)	(451,655)	8,545
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfer In	951,000	425,550	423,219	(2,331)
Transfer Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>951,000</u>	<u>425,550</u>	<u>423,219</u>	<u>(2,331)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ (35,250)</u>	<u>\$ (34,650)</u>	(28,436)	<u>\$ 6,214</u>
FUND BALANCE, OCTOBER 1, 2008			<u>468,107</u>	
FUND BALANCE, SEPTEMBER 30, 2009			<u>\$ 439,671</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
CAPITAL PROJECTS FUND**

Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Sales Tax	\$ 3,330,000	\$ 3,330,000	\$ 3,173,329	\$ (156,671)
Interest Income	19,000	19,000	17,699	(1,301)
Grant Revenue	\$ 235,000	\$ 369,000	205,366	(163,634)
Miscellaneous Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Revenue	3,584,000	3,718,000	3,396,394	(321,606)
<u>EXPENDITURES</u>				
Public Works	100,000	100,000	45,861	54,139
Capital Expenditures	<u>2,645,000</u>	<u>4,422,000</u>	<u>4,497,339</u>	<u>(75,339)</u>
Total Expenditures	<u>2,745,000</u>	<u>4,522,000</u>	<u>4,543,200</u>	<u>(21,200)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	839,000	(804,000)	(1,146,806)	(342,806)
OTHER FINANCING SOURCES(USES)				
Transfers In	510,000	1,295,000	620,000	(675,000)
Transfers Out	(1,264,700)	(1,628,950)	(2,145,410)	(516,460)
Sale of Asset	-	2,000	2,043	43
Lease Proceeds	-	-	7,380,000	7,380,000
Cost of Issuance	<u>-</u>	<u>-</u>	<u>(111,629)</u>	<u>(111,629)</u>
Total Other Financing Sources(Uses)	<u>(754,700)</u>	<u>(331,950)</u>	<u>5,745,004</u>	<u>6,076,954</u>
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ 84,300</u>	<u>\$ (1,135,950)</u>	4,598,198	<u>\$ 5,734,148</u>
FUND BALANCE, OCTOBER 1, 2008			<u>2,310,492</u>	
FUND BALANCE, SEPTEMBER 30, 2009			<u>\$ 6,908,690</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
SPECIAL ALLOCATION FUND**

Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
TIF Proceeds From Other Governments	\$ 479,750	\$ 496,250	\$ 413,234	\$ (83,016)
Interest Income	0	2,000	3,294	1,294
Grants and Donations	0	6,000	6,000	
Other Income	0	5,000	9,549	4,549
Total Revenue	479,750	509,250	432,077	(77,173)
<u>EXPENDITURES</u>				
General Government	435,000	211,500	202,295	9,205
Public Works	0	0	0	0
Capital Expenditures	64,350	61,350	74,167	(12,817)
Total Expenditures	499,350	272,850	276,462	(3,612)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,600)	236,400	155,615	(80,785)
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	351,350	351,350	400,571	49,221
Transfers Out	(235,000)	(235,000)	(235,000)	-
Total Other Financing Sources(Uses)	116,350	116,350	165,571	49,221
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 96,750	\$ 352,750	321,186	\$ (31,564)
FUND BALANCE, OCTOBER 1, 2008			(20,926)	
FUND BALANCE, SEPTEMBER 30, 2009			\$ 300,260	

The accompanying notes are an integral part of these financial statements.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FEDERAL AWARDS

For the Year Ended September 30, 2009

Summary of Audit Results

1. The auditors report expressed an unqualified opinion on the financial statements of the City of Farmington, Missouri.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters required by *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Farmington, Missouri, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No instances of noncompliance over the major federal award programs are reported in the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major funds programs for the City of Farmington, Missouri expresses an unqualified opinion.
6. No audit findings are required to be reported in accordance with section 501 (a) of OMB Circular A-133.
7. The program tested as a major program was Department of Transportation—Air Entitlement Funds, CFDA #20.106.
8. The threshold for distinguishing between type A and type B programs was \$300,000.
9. The City of Farmington, Missouri was determined to be a low-risk auditee.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FEDERAL AWARDS

For the Year Ended September 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Transportation:		
Pass Through Department of Public Safety		
Safety Grant	20.600	\$ 4,745
Click It or Ticket	20.600	293
DWI Enforcement	20.607	835
Pass Through Missouri Department of Transportation		
Air Entitlement Funds	20.106	<u>383,555</u>
Total Department of Transportation		389,428
Department of Homeland Security		
Assistance to Fire Fighters	97.044	41,413
Disaster Grant	97.036	<u>22,774</u>
Total Department of Homeland Security		64,187
Department of Health and Human Services		
Pass Through Southeast Missouri Area Agency on Aging		
AAA Title III-C Grant	93.045	72,395
AAA Nutrition Grant	93.053	<u>17,457</u>
Total Department of Health and Human Services		89,852
Department of Housing and Urban Development		
Pass-Through Missouri Department of Social Services		
Emergency Shelter Grant Program	14.231	9,632
Pass-Through Missouri Department of Economic Development		
Community Development Block Grant	14.228	<u>201,000</u>
Total Department of Housing and Urban Development		<u>210,632</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>754,099</u>

NOTE A - BASIS OF PRESENTATION

The schedule of expenditures of federal awards of the City of Farmington, Missouri is presented on the accrual basis of accounting.

NOTE B - NON-CASH ASSISTANCE

No USDA donated foods were received during the year ended September 30, 2008.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2009

FINDINGS-FINANCIAL STATEMENT AUDIT

Significant Deficiencies

None

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

PRIOR FINDINGS AND QUESTIONED COSTS

None