

CITY OF FARMINGTON, MISSOURI

FINANCIAL STATEMENTS

September 30, 2010

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, 2010, 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, 2010, 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 3, 2011, 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 20 and 47 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which

consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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. The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


Thurman, Shinn & Company
Certified Public Accountants
March 3, 2011

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

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, 2010, which collectively comprise the City of Farmington, Missouri's basic financial statements and have issued our report thereon dated March 3, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.


A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (2010-01)

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, 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 3, 2011

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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, 2010. 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, 2010.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, 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 3, 2011

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, 2010. 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

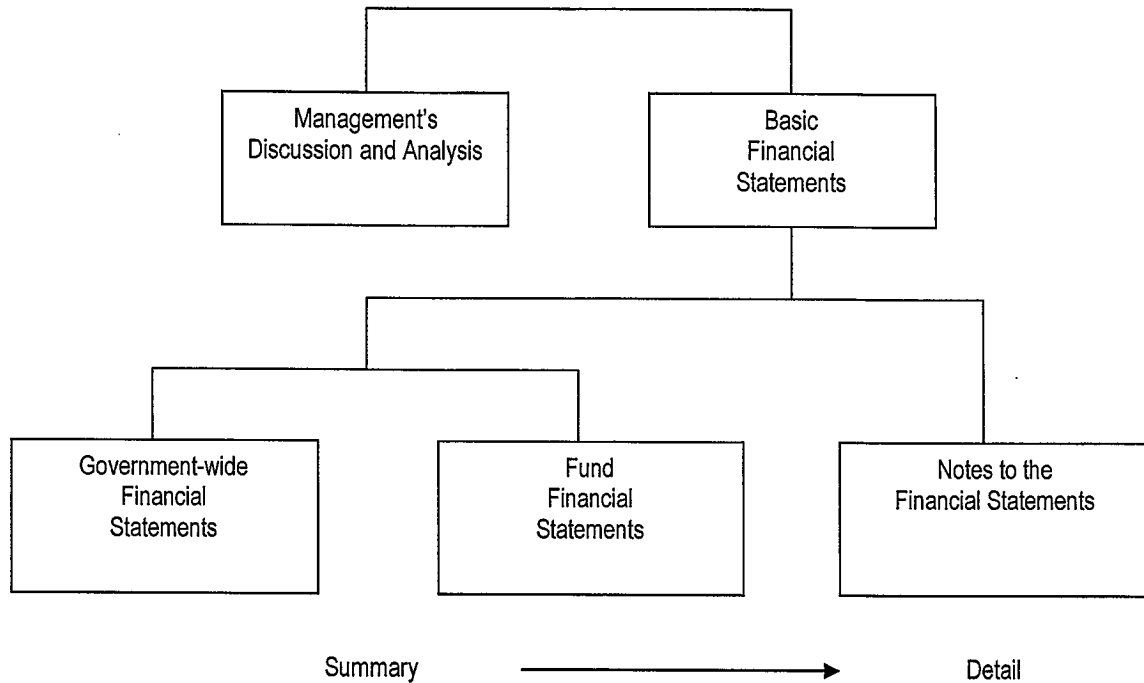
- The assets of the City of Farmington exceeded its liabilities at the close of the fiscal year by \$69,735,318 (*net assets*).
- The government's total net assets increased by \$5,289,387. This increase was realized primarily in the proprietary funds and was largely attributed to the expansion construction at the airport and the wastewater treatment plant located on the east side of the city. The City's governmental funds experienced an increase in capital assets of \$3,382,264 representing the balance of the Fire Station construction project costs in the General Fund. However, this increase was offset by a decrease in capital assets in the Capital Projects Fund related to the transfer to the Sewer Fund of the East Waste Water Treatment Plant expansion project upon completion.
- As of the close of the fiscal year, the City of Farmington's governmental funds reported combined ending fund balances of \$5,455,414 with a net change of \$(5,392,042) in fund balance. Approximately 69 percent of the governmental fund balances or \$3,776,340 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the fiscal year, the governmental fund full unreserved balance of \$3,776,340 was held in the General Fund. This amounts to approximately 60% of total General Fund operating expenditures for the fiscal year.
- The City of Farmington's total debt decreased by \$2,351,000 (12.6%) during the fiscal year. This decrease was a result of a reduction in principal of \$2,651,000 and the addition of a capital lease-purchase agreement for a replacement pumper/tanker fire truck which was needed to replace the previous pumper/tanker truck which was totaled in an accident. The lease-purchase agreement was in the amount of \$300,000 with a term of three years. Payments on this agreement are to be made from general fund revenues.
- The payment in lieu of taxes from the electric, water, and sewer departments remained at 4% in FY10 resulting in a total payment amount of \$862,500. It is important to note that this 4% is imposed pursuant to the guidance provided by the Missouri State Auditor in an audit report delivered in 2006 referencing payments in lieu of taxes and payments for administrative services provided to the electric utility by the general fund assets and resources.
- Financial grants and contributions saw a second year of increases with a 48% increase over the prior fiscal year resulting in total grants and contributions of \$2,140,331. The majority of this increase was due to transportation funds which provided the opportunity for further work on the expansion at the airport.
- Expansion on the East Wastewater Treatment Plant was completed during the fiscal year. This resulted in a transfer (capital assets net of related debt) of \$3,874,843 from the Capital Projects fund to the Sewer fund.
- The first improvements to the water system were completed to allow the City to meet the EPA mandated levels for radionuclide. However, the improvements did not function as originally indicated by the manufacturer and the necessary levels were not met. Therefore, the system was rendered non-functional and the asset valued at \$133,049 was marked as impaired.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to 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 fund 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	
	2010	2009	2010	2009	2010	2009
Current	\$ 4,855,463	\$ 3,805,844	\$ 9,344,465	\$ 7,650,995	\$ 14,199,928	\$ 11,456,839
Other Assets	1,372,693	8,225,532	3,762,523	3,775,209	5,135,216	12,000,741
Capital assets	25,113,879	25,193,182	47,499,762	40,472,295	72,613,641	65,665,477
Total assets	31,342,035	37,224,558	60,606,750	51,898,499	91,948,785	89,123,057
Long-term liabilities outstanding	5,732,303	8,114,408	10,720,422	11,282,265	16,452,725	19,396,673
Current liabilities	1,394,823	2,660,467	4,365,919	2,619,986	5,760,742	5,280,453
Total liabilities	7,127,126	10,774,875	15,086,341	13,902,251	22,213,467	24,677,126
Net assets:						
Invested in capital assets, net of related debt	18,759,495	20,715,195	37,476,146	31,445,879	56,235,641	52,161,074
Restricted	1,679,074	2,535,653	1,390,604	1,248,722	3,069,678	3,784,375
Unrestricted	3,776,340	3,198,835	6,653,658	5,301,647	10,429,998	8,500,482
Total net assets	\$ 24,214,909	\$ 26,449,683	\$ 45,520,408	\$ 37,996,248	\$ 69,735,317	\$ 64,445,931

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 \$69,735,318 as of September 30, 2010. The City's net assets increased by \$5,289,387 for the fiscal year ended September 30, 2010 with that increase primarily in the business-type activities. The largest portion of the increase in assets (83%) is related to 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. These investments for the year ended September 30, 2010 were largely attributed to the expansion of the wastewater treatment plant on the east side of town, taxiway improvements at the airport, the construction of a new fire station, and acquisition of a warehouse building to be utilized for the public works inventoried items and a future electric department facility. Comparatively, the City's investment in capital assets net of related debt continues to be approximately 81% of the total net assets. 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 \$3,069,678 or 4% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,429,998 is unrestricted. The amount of unrestricted assets in relation to total net assets is 14% compared to 13% in the prior year. Of the unrestricted assets, approximately 36% are for governmental type activities and 64% are business type activities.

City of Farmington's Statement of Activities
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for goods and services	\$ 694,931	\$ 654,718	\$ -	\$ -	\$ 694,931	\$ 654,718
Electric Charges			19,501,528	18,756,499	\$ 19,501,528	\$ 18,756,499
Water Charges			1,482,013	1,329,366	\$ 1,482,013	\$ 1,329,366
Sewer Charges			1,915,961	1,644,504	\$ 1,915,961	\$ 1,644,504
Airport Charges			176,580	171,398	\$ 176,580	\$ 171,398
Civic Complex			1,331,574	1,436,678	\$ 1,331,574	\$ 1,436,678
Operating grants and contributions	192,065	163,746	296,335	349,161	\$ 488,400	\$ 512,907
Capital grants and contributions	228,361	205,366	1,423,570	727,346	\$ 1,651,931	\$ 932,712
General revenues:						
Sales taxes	6,400,145	6,444,342			\$ 6,400,145	\$ 6,444,342
Property taxes	767,647	829,646			\$ 767,647	\$ 829,646
Motor Fuel & Vehicle Tax	527,500	520,339			\$ 527,500	\$ 520,339
Other taxes	1,004,984	468,770			\$ 1,004,984	\$ 468,770
Tax Increment Finance Proceeds	425,118	413,234			\$ 425,118	\$ 413,234
Interest Income	50,030	44,302	225,214	209,913	\$ 275,244	\$ 254,215
Administrative Pilot Payment	862,500	865,300			\$ 862,500	\$ 865,300
Other	14,406	96,463			\$ 14,406	\$ 96,463
Gain/(Loss) on Disposal of Assets	84,079				\$ 84,079	
Total revenues	11,251,766	10,706,226	26,352,775	24,624,865	37,604,541	35,331,091
Expenses:						
General government	1,466,798	1,163,087			1,466,798	1,163,087
Public safety	3,291,581	3,019,667			3,291,581	3,019,667
Streets and Public Works	2,470,618	2,063,510			2,470,618	2,063,510
Cultural and recreation	931,662	928,522			931,662	928,522
Electric			18,285,895	18,529,589	18,285,895	18,529,589
Water			1,254,790	1,051,594	1,254,790	1,051,594
Sewer			2,138,057	1,822,347	2,138,057	1,822,347
Airport			389,939	383,491	389,939	383,491
Civic Complex			2,085,815	2,008,078	2,085,815	2,008,078
Total expenses	8,160,659	7,174,786	24,154,496	23,795,099	32,315,155	30,969,885
Increase in net assets before transfers	3,091,107	3,531,440	2,198,279	829,766	5,289,386	4,361,206
Transfers	(5,325,881)	(1,110,223)	5,325,881	1,110,223	-	-
Increase in net assets	(2,234,774)	2,421,217	7,524,160	1,939,989	5,289,386	4,361,206
Net assets, October 1	26,449,683	24,028,466	37,996,248	36,056,259	64,445,931	60,084,725
Net assets, September 30	\$ 24,214,909	\$ 26,449,683	\$ 45,520,408	\$ 37,996,248	\$ 69,735,317	\$ 64,445,931

Governmental activities. Governmental activities increased the City's net assets by \$3,091,107 before transfers. Key elements of this change are as follows:

- Grant revenues and contributions in the public safety and cultural and recreation areas of \$192,065 were utilized for operating costs.
- Tax revenues (net of the newly imposed transient guest tax) increased approximately 2% from the prior year. This increase consisted of 1.4% increase in motor fuel taxes. A 57.9% increase in gross receipts taxes due to a one-time settlement received in relation to telephone taxes. A decrease of approximately 0.7% was seen in sales tax, which was a widespread issue affecting many governmental units during this time period.
- Capital grants in the amount of \$228,361 were received for streets and sidewalk improvements.

A comparison of the Fiscal Year 2010 revenue sources is seen in Figure 4. Most of the City's revenues showed little to no change. The increase seen in other taxes includes \$199,094 from the addition of a new hotel and motel tax on transient guests not in place in the prior fiscal year.

Revenues by Source
Figure 4

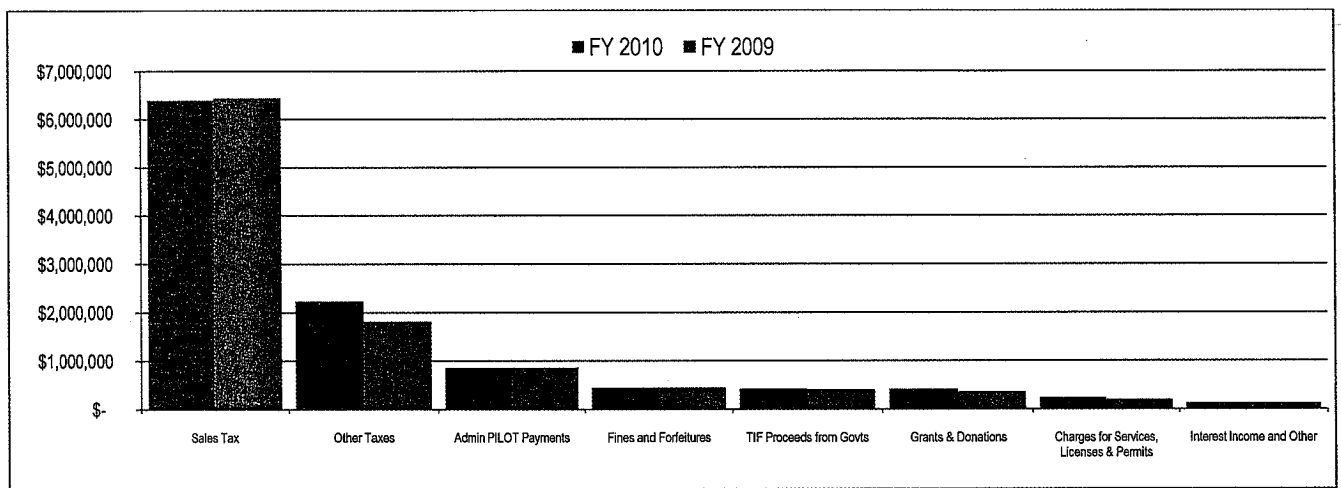
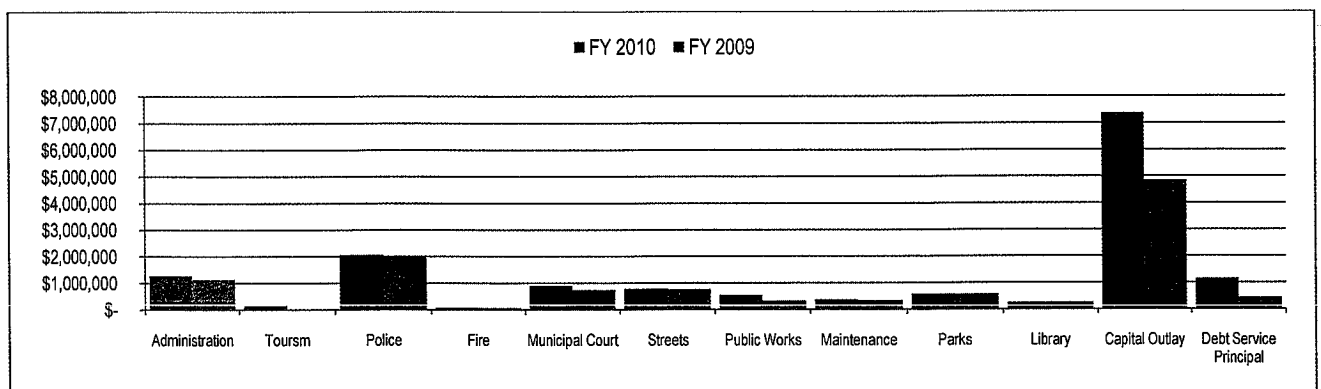


Figure 5 provides a prior year comparison of the functional expenses for the City of Farmington. Many areas experienced an increase in expenses. A large increase in capital outlay and debt service principal is seen due to the construction projects underway in the City.

Expenses by Function
Figure 5



Business-type activities. Business-type activities increased the City of Farmington's net assets by \$2,198,279 before transfers, accounting for 42% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Capital expansion at the airport accounted for a \$1,210,275 increase.
- The utility fund accounted for a \$1,511,810 increase.
- Sewer fund accounted for a \$66,253 decrease.
- Civic Complex fund accounted for a \$457,553 decrease.

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 \$3,776,340. 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 total fund balance is unreserved and represents approximately 58% of total General Fund expenditures.

At September 30, 2010, the governmental funds of the City of Farmington reported a combined fund balance of \$5,455,414 with a net decrease in governmental funds combined balance of \$5,392,042. Included in this change in fund balance are increases in fund balance in the General, Special Allocation and Transient Tax Funds. However, the Debt Service and Capital Projects Funds both experienced decreases. The largest decrease occurred in the Capital Projects Fund due to the transfer of the East Wastewater Treatment Plant construction to the Sewer Fund upon completion of the project. A slight decrease was realized in the Debt Service Fund which was anticipated due to a reduction in the amount of reserves required for payment of outstanding debt.

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 \$6,653,659 at the end of the fiscal year. The Utility Fund, which consists of Electric and Water had unrestricted net assets of \$6,736,516, a \$1,290,341 or 23.7% increase over the prior year. This is due primarily to an increase in inventory and cash and cash equivalents. An increase in cash and cash equivalents was achieved through a combination of a rate increase in water, a growth in consumption of services, and a reduction in some expenses. The water rate increase was needed to help pay for the radionuclide project costs. The Sewer Fund holds no unrestricted net assets. The Civic Complex Fund, which consists of the Civic Center, Centene Center, Water Park, and Senior Center, had unrestricted net assets of \$166,535. This increase in unrestricted net assets is due to the general fund forgiving an interfund loan in the amount of \$135,000 which was made in the prior fiscal year to pay-off a building loan when the Senior Center operations were taken over by the City.

Budgetary Highlights

During the fiscal year, the City revised the budget on three occasions. The first and third amendments affected both governmental and proprietary funds with the second amendment affecting only governmental 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 adjust revenues and expenses based on year-to-date actual and new information available at the time of the amendment. Primary adjustments to the governmental funds included:

- Increase in gross receipts tax to adjust for actual settlement amount received,
 - Increase in part-time salaries and contracts to adjust for street maintenance and administrative projects being handled by part-time workers,
 - Additional grants and contributions received in the area of public safety and related expenses, and
 - Changes to planned capital projects to account for reduction in sales taxes.
- The second budget amendment was made to account for revenues and expenses related to an insurance payout on a fire truck accident in which a pumper/tanker was totaled and the subsequent purchase of a new apparatus.
 - The third budget amendment addressed transfers which were primarily related to capital projects, new grant revenues and expenses, and a new agreement related to the Karsch-Downtown Tax Increment Finance District.
 - Debt Service Fund budget amendments were made to account for the debt service on the East Wastewater Treatment Plant until such time as the project was complete
 - The Capital Projects Fund amendment reflected a decrease in the amount of capital sales tax and a changes to interfund transfers all of which were related to the East Wastewater Treatment Plant project and debt service.

Proprietary Fund Amendments

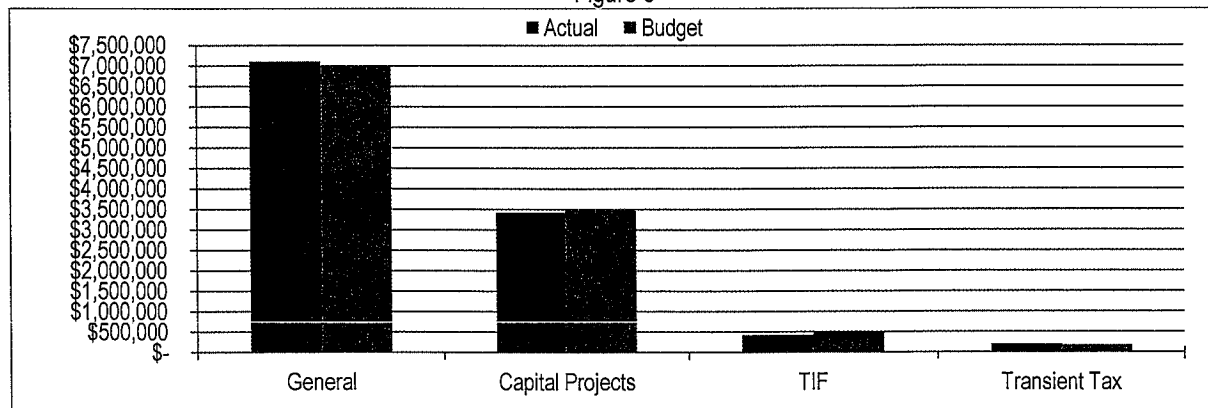
- Amendments to the Civic Complex Fund consisted of an adjustment to expenses based on year-to-date actual and new information available at the time of the amendment and the addition of a \$135,000 transfer from general fund as a write-off of an inter-fund loan made in Fiscal Year 2009.
- Amendments to the Airport Fund consisted of an adjustment to expenses based on year-to-date actual and new information available at the time of the amendment and the addition of a transfer from general fund for capital grants match.
- The amendments to the Utility Fund included adjustments to revenues and expenses based on year-to-date actual and new information available at the time of the amendment. The changes did not significantly impact the fund.
- Sewer Fund budget amendments were made primarily to debt service and transfers on the East Wastewater Treatment Plant.

Performance to Budget

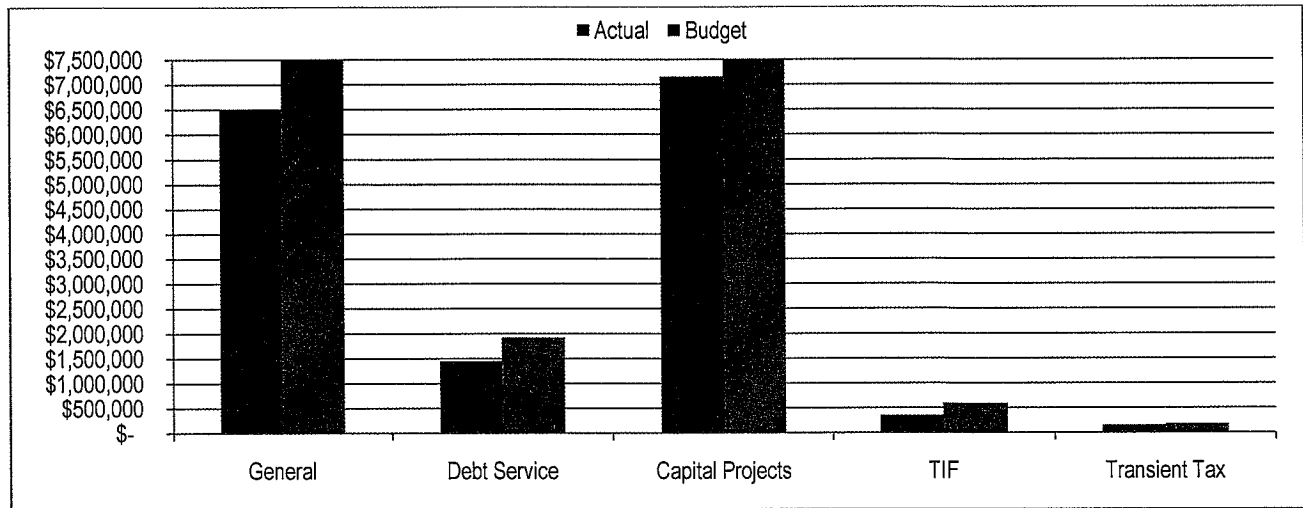
Governmental Funds. Actual program revenues in the Governmental Funds as a whole were \$25,969 or approximately 0.2% below budget. The General Fund program revenues were \$100,883 above budget, primarily due to increases in the gross receipts tax. Decreases in the Capital Projects Fund were largely due to decrease in the capital sales tax receipts of \$96,259. The Special Allocation Fund had a variance of \$83,802 in TIF Proceeds due to the withholding of incremental revenues by the St. Francois County Ambulance District. The Transient Tax Fund tax revenues were \$21,094 above the budgeted amount. This variance is attributed to the fact that this was a newly imposed tax for which estimates were generated and the Hampton Inn construction was completed and the hotel was opened during the fiscal year. Actual expenditures for the governmental funds as a whole were \$2,165,019 or 12% less than budgeted. This variance was realized due to the postponement of some expenditures, primarily capital related, to adjust for changes in the economy. Additionally, some debt service and capital projects expenses were accounted for in the Sewer Fund after the East Treatment Plant expansion was operational.

Governmental Fund Revenues - Budget to Actual

Figure 6



Governmental Fund Expenses - Budget to Actual
Figure 7



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, 2010, totals \$72,613,641 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. This is a 10.5% increase over the prior year primarily due to the completion of construction on a new Fire Station and East Wastewater Treatment Plant expansion.

City of Farmington's Capital Assets
Figure 11

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and Land Improvements	\$ 2,412,846	\$ 2,412,846	\$ 745,816	\$ 650,686	\$ 3,158,662	\$ 3,063,532
Buildings and system	6,919,931	3,323,500	16,633,935	17,092,731	23,553,866	20,416,231
Equipment, Furniture, and Vehicles	4,570,570	4,776,944	3,197,894	3,036,406	7,768,464	7,813,350
Infrastructure	22,698,416	21,959,069	46,170,088	38,684,487	68,868,504	60,643,556
Construction in progress	-	3,408,340	2,061,039	518,118	2,061,039	3,926,458
Total	36,601,763	35,880,699	68,808,772	59,982,428	105,410,535	95,863,127
Less Accumulated Depreciation	11,487,884	10,687,517	21,309,010	19,510,133	32,796,894	30,197,650
Total	\$ 25,113,879	\$ 25,193,182	\$ 47,499,762	\$ 40,472,295	\$ 72,613,641	\$ 65,665,477

Major capital asset transactions during the year include the following:

Governmental Funds

- Public safety asset additions of \$3,478,388 for the construction of a fire station, police vehicles, and phone and repeater system upgrades.

- Street and public works asset additions of \$19,865 for equipment and \$739,347 for streets, sidewalks, curbs and guttering.
- Cultural and recreation asset additions of \$66,769 for facility improvements at the library and parks equipment.

Proprietary Funds

- Completion of \$1,743,280 in improvements at the airport including work on the runway/taxiway.
- Electric sub-station improvements of \$320,514 and work on a new warehouse facility in the amount of \$358,032.
- Water system addition of \$54,857 for Radionuclide project less an impairment of assets of \$133,049 for radionuclide treatment equipment which did not meet the criteria and was deemed nonfunctional.
- Sewer system asset additions of \$6,302,731 for expansion of the East Wastewater Treatment Plant and improvements to sewer 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 decreased by \$2,351,000 (12.6%) during the past fiscal year. This consists of a decrease in principal of \$2,651,000 and \$300,000 additional debt for the purchase of a pumper/tanker fire truck.

Debt currently held for the City of Farmington includes:

- Revenue Bonds for sewer system construction in the amount of \$3,535,000 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 \$2,483,569.
- A balance of \$4,285,000 remains on a capital improvement certificates of participation issue payable from available revenues in the fiscal year. The governmental funds account for \$1,902,384 of the balance, and the proprietary funds account for \$2,382,616 of the balance.
- The City has a total of four capital leases amounting to \$8,558,000. They are as follows:
 - An electric generators capital lease in the amount of \$2,046,000 with final payment due December 2015.
 - A fire station construction capital lease in the amount of \$4,152,000 with final payment due August 2029.
 - An East Treatment Plant Expansion capital lease in the amount of \$2,060,000.
 - A pumper/tanker fire truck capital lease in the amount of \$300,000 with final payment due September 2013.

General Obligation Bonds, Revenue Bonds,
Certificates of Participation and Capital Leases
Figure 12

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bond		65,000			-	65,000
Revenue bonds			3,535,000	3,815,000	3,535,000	3,815,000
Due to State of Missouri			2,483,569	2,679,569	2,483,569	2,679,569
Certificates of Participation	1,902,384	2,257,584	2,382,616	2,827,416	4,285,000	5,085,000
Capital Leases	4,452,000	7,380,000	4,106,000	2,384,000	8,558,000	9,764,000
Total	\$ 6,354,384	\$ 9,702,584	\$ 12,507,185	\$ 11,705,985	\$ 18,861,569	\$ 21,408,569

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 2010 was \$179,820,934, resulting in a legal debt margin for the City of Farmington of \$35,964,187.

* 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, 2010, the City saw a less than 1% 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 increased for the upcoming fiscal year from \$0.4363 to \$0.4422 per \$100 of assessed valuation.

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

Unemployment. The City of Farmington unemployment rate for September 2010 was 10.5%. In the past couple of years, the City has seen this rate rise during the months of November through March and then drop April through October. The last published rate was in January 2011 at 12.3%. These averages are above the State average of 9.3% and 10.2% for the respective periods.

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, 2011

Governmental Activities

Budgeted revenues in the governmental funds (net of transfers) are expected to increase by 1% to approximately \$7.2 million. Based on economic reports, sales tax is budgeted to have less than one percent increase, but must be closely monitored and expenditure

adjustments made when necessary. A five percent payment in lieu of taxes is budgeted from the Utility and Sewer Funds payable to the General Fund.

Budgeted personnel and operating expenditures in the General Fund are expected to rise approximately 7% to \$6,964,700. The budget provided for an average 2.0 to 2.5% cost of living increase in pay for all employees (step increases included) with additional increases for employees whose positions were reclassified and no change in benefits provided. Governmental funds capital investment continues for the City at \$4,817,900. The primary projects budgeted include continuation of radionuclide remediation and additional street and sidewalk improvements.

Business-type Activities

Budgeted revenues in the proprietary funds are expected to increase to \$25,019,200. Much of this increase is driven by increases in the water rates. To address anticipated increased operational costs due to current regulations and capacity increases and necessary capital investment, the customer charge for water has increased. Electric and sewer rates remain unchanged.

Budgeted operating expenditures in the Civic Complex Fund are expected to increase approximately 4%. This increase is split between personnel and standard operating costs. Budgeted operating expenditures (net of cost of goods sold) in the Utility Fund Electric Department are expected to increase approximately 2%. This increase is planned based on an increases in costs related to the economy. Power purchase costs are budgeted to remain constant with over the prior year. Budgeted operating expenditures in the Utility Fund Water Department are expected to increase approximately 13% over the prior year actual. These increases are primarily due to the radionuclide treatment program. These anticipated increases are offset by an increased customer charge. Sewer Fund expenditures are budgeted to increase approximately 1% over prior year actual. The increases are due to increases in personnel and operating expenditures related to the economy.

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, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash & Cash Equivalents	\$ 2,611,282	\$ 5,172,679	\$ 7,783,961
Investments	12,000	0	12,000
Accounts Receivable	1,519,815	2,813,060	4,332,875
Prepaid Expenses	35,339	60,037	95,376
Prepaid Interest	38,676	19,189	57,865
Due To/From Other Funds	88,847	(88,847)	0
Equipment Deposit	549,504	0	549,504
Inventory	0	1,368,347	1,368,347
Total	<u>4,855,463</u>	<u>9,344,465</u>	<u>14,199,928</u>
<u>NONCURRENT ASSETS</u>			
Restricted Assets:			
Cash & Cash Equivalents	617,249	573,403	1,190,652
Investments	755,444	3,129,868	3,885,312
Unamortized Bond Issue Costs	0	59,252	59,252
Capital Assets (Net)	<u>25,113,879</u>	<u>47,499,762</u>	<u>72,613,641</u>
Total	<u>26,486,572</u>	<u>51,262,285</u>	<u>77,748,857</u>
TOTAL ASSETS	31,342,035	60,606,750	91,948,785
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	435,707	1,851,297	2,287,004
Accrued Salaries	197,903	115,762	313,665
Accrued Interest	34,056	42,646	76,702
Taxes Payable	0	64,854	64,854
Builder's Deposits	0	53,042	53,042
Other Payable	105,076	87,839	192,915
Current Portion of Long-Term Debt	<u>622,081</u>	<u>2,150,480</u>	<u>2,772,561</u>
Total	<u>1,394,823</u>	<u>4,365,920</u>	<u>5,760,743</u>
<u>LONG-TERM LIABILITIES</u>			
Customer Deposits Payable	0	363,717	363,717
Due to State of Missouri - State Revolving Fund	0	2,483,569	2,483,569
Bonds Payable	0	3,535,000	3,535,000
Capital Leases Payable	6,354,384	6,488,616	12,843,000
Less Current Maturities	<u>(622,081)</u>	<u>(2,150,480)</u>	<u>(2,772,561)</u>
Total	<u>5,732,303</u>	<u>10,720,422</u>	<u>16,452,725</u>
TOTAL LIABILITIES	7,127,126	15,086,342	22,213,468
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	18,759,495	37,476,146	56,235,641
Restricted	1,679,074	1,390,604	3,069,678
Unrestricted	<u>3,776,340</u>	<u>6,653,658</u>	<u>10,429,998</u>
TOTAL NET ASSETS	\$ 24,214,909	\$ 45,520,408	\$ 69,735,317

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

CITY OF FARMINGTON, MISSOURI

STATEMENT OF ACTIVITIES

Year Ended September 30, 2010

	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
<u>FUNCTIONS/PROGRAMS</u>							
Primary Government:							
Governmental Activities:							
General Government	\$ 1,466,798	\$ 110,645	\$ 0	\$ 0	\$ (1,356,153)	\$ 0	\$ (1,356,153)
Public Safety	3,291,581	455,079	0	167,749	(2,668,753)	0	(2,668,753)
Streets and Public Works	2,470,618	59,833	228,361	0	(2,182,424)	0	(2,182,424)
Culture and Recreation	931,662	69,374	0	24,316	(837,972)	0	(837,972)
Total Governmental Activities	8,160,659	694,931	228,361	192,065	(7,045,302)	0	(7,045,302)
Business-Type Activities:							
Airport	389,939	176,580	1,423,570	20	0	1,210,231	1,210,231
Electric	18,285,895	19,501,528	0	0	0	1,215,633	1,215,633
Water	1,254,790	1,482,013	0	0	0	227,223	227,223
Sewer	2,138,057	1,915,961	0	0	0	(222,096)	(222,096)
Civic Complex	2,085,815	1,331,574	0	296,315	0	(457,926)	(457,926)
Total Business-Type Activities	24,154,496	24,407,656	1,423,570	296,335	0	1,973,065	1,973,065
Total Primary Government	\$ 32,315,155	\$ 25,102,587	\$ 1,651,931	\$ 488,400	(7,045,302)	1,973,065	(5,072,237)
General Revenues:							
Taxes							
Sales Taxes					6,400,145	0	6,400,145
Real and Personal Property Taxes					767,647	0	767,647
Motor Fuel and Vehicle Taxes					527,500	0	527,500
Gross Receipts Tax					740,010	0	740,010
TIF Proceeds					425,118	0	425,118
Other Taxes					264,974	0	264,974
Administrative Pilot Payment					862,500	0	862,500
Interest Income					50,030	225,214	275,244
Other					14,406	0	14,406
Gain on Disposal of Asset					84,079	0	84,079
Transfers					(5,325,881)	5,325,881	0
Total General Revenues and Transfers					4,810,528	5,551,095	10,361,623
Change in Net Assets for the Year					(2,234,774)	7,524,160	5,289,386
Net Assets - October 1, 2009					26,449,683	37,996,248	64,445,931
Net Assets - September 30, 2010					\$ 24,214,909	\$ 45,520,408	\$ 69,735,317

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

CITY OF FARMINGTON, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2010

	Major Funds					Total Governmental Funds.
	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	
ASSETS						
Cash & Cash Equivalents	\$ 2,611,282	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,611,282
Investments	12,000	0	0	0	0	12,000
Accounts Receivable	840,957	0	475,134	162,030	41,694	1,519,815
Prepaid Expenses	35,339	0	0	0	0	35,339
Prepaid Interest	0	0	38,676	0	0	38,676
Due From Other Funds	238,847	0	0	269,950	0	508,797
Equipment Deposit	549,504	0	0	0	0	549,504
Restricted Assets:						
Cash & Investments	0	438,259	682,848	196,851	54,735	1,372,693
TOTAL ASSETS	\$ 4,287,929	\$ 438,259	\$ 1,196,658	\$ 628,831	\$ 96,429	\$ 6,648,106
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 102,098	\$ 0	\$ 278,874	\$ 0	\$ 54,735	\$ 435,707
Accrued Salaries	197,903	0	0	0	0	197,903
Accrued Interest Payable	0	34,056	0	0	0	34,056
Due to Other Funds	108,240	0	161,710	150,000	0	419,950
Other Liabilities	103,348	0	0	1,728	0	105,076
TOTAL LIABILITIES	511,589	34,056	440,584	151,728	54,735	1,192,692
FUND BALANCES						
Unrestricted	3,776,340	0	0	0	0	3,776,340
Restricted	0	404,203	756,074	477,103	41,694	1,679,074
TOTAL FUND BALANCES	3,776,340	404,203	756,074	477,103	41,694	5,455,414
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,287,929	\$ 438,259	\$ 1,196,658	\$ 628,831	\$ 96,429	\$ 6,648,106

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

Total Fund Balance - Total Governmental Funds

\$ 5,455,414

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.

Governmental capital assets
Less accumulated depreciation

\$ 38,601,763
(11,487,884)

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.

25,113,879

Leases Payable

(6,354,384)

Net Assets of Governmental Activities

\$ 24,214,909

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, 2010

	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	Total Governmental Funds
REVENUES						
Sales Tax	\$ 3,246,405	\$ 0	\$ 3,153,740	\$ 0	\$ 0	\$ 6,400,145
Real and Personal Property Tax	767,206	441	0	0	0	767,647
Grants and Donations	192,065	0	228,361	0	0	420,426
Charges for Services	694,930	0	0	0	0	694,930
Motor Fuel and Vehicle Tax	527,500	0	0	0	0	527,500
Utility & Gross Receipts Tax	740,010	0	0	0	0	740,010
Transient Guest (Hotel/Motel) Tax					199,094	199,094
Interest Income	4,222	218	44,008	1,544	38	50,030
TIF Proceeds From Other Governments	0	0	0	425,118	0	425,118
Administrative Pilot Payment	862,500	0	0	0	0	862,500
Other	79,749	0	0	536	0	80,285
Total Operating Revenues	7,114,587	659	3,426,109	427,198	199,132	11,167,685
EXPENSES						
General Government						
Administration	1,106,943	0	0	175,622	0	1,282,565
Tourism	0	0	0	0	157,438	157,438
Public Safety						
Police	2,076,480	3,455	0	0	0	2,079,935
Municipal Court	78,585	0	0	0	0	78,585
Fire	758,066	157,549	0	0	0	915,615
Streets and Public Works						
Street	717,137	75,140	0	0	0	792,277
Public Works	316,280	59,617	3,546	175,363	0	554,796
Maintenance	388,591	0	0	0	0	388,591
Culture and Recreation						
Park	582,374	0	0	0	0	582,374
Library	264,939	0	0	0	0	264,939
Capital Outlay	218,640	0	7,158,558	0	0	7,377,198
Debt Service-Principal	0	1,160,200	0	0	0	1,160,200
Total Expenses	6,508,035	1,455,961	7,162,104	350,975	157,438	15,634,513
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	606,552	(1,455,302)	(3,735,995)	76,223	41,694	(4,466,828)

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

Year Ended September 30, 2010

	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	Total Governmental Funds
OTHER FINANCING SOURCES (USES)						
Transfer In	19,776	1,439,610	0	409,723	0	1,869,109
Transfer Out	(597,823)	(19,776)	(2,416,621)	(309,103)	0	(3,343,323)
Insurance Proceeds	249,000	0	0	0	0	249,000
Lease Proceeds	300,000	0	0	0	0	300,000
Total Other Financing Sources And Uses	(29,047)	1,419,834	(2,416,621)	100,620	0	(925,214)
NET CHANGE IN FUND BALANCES	577,505	(35,468)	(6,152,616)	176,843	41,694	(5,392,042)
FUND BALANCES - OCTOBER 1, 2009	3,198,835	439,671	6,908,690	300,260	0	10,847,456
FUND BALANCES - SEPTEMBER 30, 2010	\$ 3,776,340	\$ 404,203	\$ 756,074	\$ 477,103	\$ 41,694	\$ 5,455,414

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, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (5,392,042)
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	7,377,198
Depreciation	(988,849)
Governmental funds report all proceeds from the sale of assets as revenue while on the Government-Wide Statement of Activities this amount is netted against accumulated depreciation.	
Cost of Disposed Asset	(353,403)
Accumulated Depreciation	188,482
Transfer of assets expensed and debt included in income in the governmental fund statements but shown as assets and liabilities on the Government-Wide Statement of Net Assets	(3,926,360)
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.	1,160,200
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	(300,000)
Change in Net Assets of Governmental Activities as Reported on the Statement of Activities	<u>\$ (2,234,774)</u>

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

September 30, 2010

	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>ASSETS</u>					
<u>CURRENT ASSETS</u>					
Cash & Cash Equivalents	\$ 30,387	\$ 4,883,251	\$ 0	\$ 259,041	\$ 5,172,679
Accounts Receivable	117,673	2,432,708	236,065	26,614	2,813,060
Prepays	818	49,919	23,880	4,609	79,226
Inventory	49,455	1,303,018	15,874	0	1,368,347
Total	198,333	8,668,896	275,819	290,264	9,433,312
<u>NONCURRENT ASSETS</u>					
Restricted Assets:					
Cash & Cash Equivalents	0	0	573,403	0	573,403
Investments	0	0	2,645,154	484,714	3,129,868
Unamortized Bond Issue Costs	0	29,156	30,096	0	59,252
Due From Other Funds	0	0	0	0	0
Advances To Other Funds	0	0	0	0	0
Capital Assets (Net of Accumulated Depreciation)	6,764,339	12,302,873	17,047,938	11,384,612	47,499,762
Total	6,764,339	12,332,029	20,296,591	11,869,326	51,262,285
TOTAL ASSETS	6,962,672	21,000,925	20,572,410	12,159,590	60,695,597
<u>LIABILITIES</u>					
<u>CURRENT LIABILITIES</u>					
Accounts Payable	356,791	1,403,852	52,713	37,941	1,851,297
Accrued Salaries	1,763	60,382	23,096	30,521	115,762
Accrued Interest	0	0	0	42,646	42,646
Taxes Payable	0	64,854	0	0	64,854
Due to Other Funds	88,847	0	0	0	88,847
Builder's Deposits	0	53,042	0	0	53,042
Other Liabilities	324	15,688	59,204	12,623	87,839
Current Portion of Long-Term Debt	0	353,000	1,336,000	461,480	2,150,480
Total	447,725	1,950,818	1,471,013	585,211	4,454,767
<u>LONG-TERM LIABILITIES</u>					
Customer Deposits Payable	0	363,717	0	0	363,717
Advances From Other Funds	0	0	0	0	0
Due to State of Missouri - State Revolving Fund	0	0	2,483,569	0	2,483,569
Revenue Bonds Payable	0	0	3,535,000	0	3,535,000
Capital Leases Payable	0	2,046,000	2,060,000	2,382,616	6,488,616
Less Current Maturities	0	(353,000)	(1,336,000)	(461,480)	(2,150,480)
Total	0	2,056,717	6,742,569	1,921,136	10,720,422
TOTAL LIABILITIES	447,725	4,007,535	8,213,582	2,506,347	15,175,189
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	6,764,339	10,256,873	11,452,938	9,001,996	37,476,146
Restricted	0	0	905,890	484,714	1,390,604
Unrestricted	(249,392)	6,736,517	0	166,533	6,653,658
TOTAL NET ASSETS	<u>\$ 6,514,947</u>	<u>\$ 16,993,390</u>	<u>\$ 12,358,828</u>	<u>\$ 9,653,243</u>	<u>\$ 45,520,408</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, 2010

	Enterprise Funds				
	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>OPERATING REVENUES</u>					
Charges for Services:					
Airport Charges	\$ 176,580	\$ 0	\$ 0	\$ 0	\$ 176,580
Electric Charges	0	19,501,528	0	0	19,501,528
Water Charges	0	1,482,013	0	0	1,482,013
Sewer Charges	0	0	1,915,961	0	1,915,961
Civic Complex Charges	0	0	0	1,331,574	1,331,574
Total Operating Revenues	176,580	20,983,541	1,915,961	1,331,574	24,407,656
<u>OPERATING EXPENSES</u>					
Airport Expenses	205,976	0	0	0	205,976
Electric Expenses	0	17,706,008	0	0	17,706,008
Water Expenses	0	1,067,545	0	0	1,067,545
Sewer Expenses	0	0	1,327,997	0	1,327,997
Civic Complex Expenses	0	0	0	1,600,833	1,600,833
Depreciation	183,963	683,973	540,846	390,095	1,798,877
Total Operating Expenses	389,939	19,457,526	1,868,843	1,990,928	23,707,236
OPERATING INCOME (LOSS)	(213,359)	1,526,015	47,118	(659,354)	700,420
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Grant Income	1,423,570	0	0	182,314	1,605,884
Contributions	20	0	0	114,001	114,021
Interest Income	44	68,954	155,843	373	225,214
Cost of Issuance and Bond Fees	0	(41,188)	(46,434)	0	(87,622)
Interest Expense	0	(41,971)	(222,780)	(94,887)	(359,638)
Total Nonoperating Revenues (Expenses)	1,423,634	(14,205)	(113,371)	201,801	1,497,859
NET INCOME (LOSS) BEFORE TRANSFERS	1,210,275	1,511,810	(66,253)	(457,553)	2,198,279
Transfer In	284,701	73,348	4,337,498	630,334	5,325,881
Transfer Out	0	0	0	0	0
Total Transfers	284,701	73,348	4,337,498	630,334	5,325,881
CHANGE IN NET ASSETS	1,494,976	1,585,158	4,271,245	172,781	7,524,160
NET ASSETS - OCTOBER 1, 2009	5,019,971	15,408,232	8,087,583	9,480,462	37,996,248
NET ASSETS - SEPTEMBER 30, 2010	<u>\$ 6,514,947</u>	<u>\$ 16,993,390</u>	<u>\$ 12,358,828</u>	<u>\$ 9,653,243</u>	<u>\$ 45,520,408</u>

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, 2010

	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 180,843	\$ 20,764,523	\$ 1,888,132	\$ 1,332,773	\$ 24,166,271
Payments to Suppliers	146,055	(17,814,693)	(835,165)	(903,676)	(19,407,479)
Payments to Employees	(26,701)	(932,365)	(396,770)	(692,251)	(2,048,087)
Net Cash Provided (Used) By Operating Activities	<u>300,197</u>	<u>2,017,465</u>	<u>656,197</u>	<u>(263,154)</u>	<u>2,710,705</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING</u>					
Transfers In	284,701	73,348	462,655	630,334	1,451,038
Contributions	20	0	0	296,315	296,335
Loans To/From Other Funds	(616,914)	0	0	(119,432)	(736,346)
Nonoperating Grant Receipts	1,805,619	0	0	0	1,805,619
Net Cash Provided By Nonoperating Activities	<u>1,473,426</u>	<u>73,348</u>	<u>462,655</u>	<u>807,217</u>	<u>2,816,646</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Principal Payments on Long-Term Debt	0	(338,000)	(904,000)	(444,800)	(1,686,800)
Interest Paid on Debt	0	(41,971)	(222,780)	(101,580)	(366,331)
Bond Fees	0	(35,612)	(39,594)	(1,269)	(76,475)
Acquisition of Capital Assets	(1,743,280)	(640,790)	(272,593)	0	(2,656,663)
Net Cash Used By Capital And Related Financing Activities	<u>(1,743,280)</u>	<u>(1,056,373)</u>	<u>(1,438,967)</u>	<u>(547,649)</u>	<u>(4,786,269)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemption of Investments	0	0	220,635	7,934	228,569
Investment Earnings	44	68,954	155,843	373	225,214
Net Cash Provided by Investing Activities	<u>44</u>	<u>68,954</u>	<u>376,478</u>	<u>8,307</u>	<u>453,783</u>
Net Change in Cash and Cash Equivalents	30,387	1,103,394	56,363	4,721	1,194,865
Balances at October 1, 2009	<u>0</u>	<u>3,779,857</u>	<u>517,040</u>	<u>254,320</u>	<u>4,551,217</u>
Balances at September 30, 2010	<u>\$ 30,387</u>	<u>\$ 4,883,251</u>	<u>\$ 573,403</u>	<u>\$ 259,041</u>	<u>\$ 5,746,082</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (213,359)	\$ 1,526,015	\$ 47,118	\$ (659,354)	\$ 700,420
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation & Amortization Expenses	183,963	683,973	540,846	390,095	1,798,877
Loss on Impairment of Assets	0	0	133,049	0	133,049
Changes in Assets and Liabilities					
Accounts Receivable	4,263	(198,266)	(27,829)	1,199	(220,633)
Prepays	(111)	1,592	5,337	(303)	6,515
Inventory	(9,207)	(100,091)	10,921	0	(98,377)
Accounts Payable & Other Payables	334,558	120,725	(55,008)	6,944	407,219
Customer and Builder Deposits Payable	0	(20,752)	0	0	(20,752)
Accrued Salaries and Compensated Absences	90	4,269	1,763	(1,737)	4,385
Net Cash Provided (Used) by Operating Activities	<u>\$ 300,197</u>	<u>\$ 2,017,465</u>	<u>\$ 656,197</u>	<u>\$ (263,156)</u>	<u>\$ 2,710,703</u>
NONCASH TRANSACTIONS:					
The Sewer Fund Received the Following Noncash Transfer From the Capital Projects Fund at the Completion of the East Waste Water Treatment Plant:					
Capital Assets	\$ 6,302,731				
Prepaid Interest	23,176				
Cost of Issuance	36,936				
MAMU Lease Payable	(2,488,000)				
Net Noncash Transfer	<u>\$ 3,874,843</u>				

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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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.

The Farmington Tourism and Convention Bureau is considered to be a related organization. The Bureau is excluded from the reporting entity because the City's accountability does not extend beyond appointing the Bureau's board members. The duly elected Mayor of the City and the duly appointed City Administrator for the City shall serve as two of the seven Members of the Board of Directors. The City appointed the original Board Members. However, any subsequent Board Members will be appointed by the Board in place at the time.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

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.

Transient Tax Fund - The Transient Tax Fund is used to account for the financial resources derived from the Transient Tax.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

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 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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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, 2010 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.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

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, 2010 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 agent in the entity's name.

Category 3- Deposits which are uninsured or uncollateralized.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS-continued

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	\$ 8,216,295	\$ 0	\$ 0	\$ 8,216,295
Bank Money Market Accounts	752,219	0	0	752,219
Certificates of Deposit	17,000	0	0	17,000
Stock Mutual Funds	0	871,788	0	871,788
Guaranteed Investment Contracts	0	2,957,945	0	2,957,945
Bond Mutual Funds	0	55,579	0	55,579
Cash on Hand	0	0	1,100	1,100
Totals	<u>\$ 8,985,514</u>	<u>\$ 3,885,312</u>	<u>\$ 1,100</u>	<u>\$ 12,871,926</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.

NOTE 3 - ACCOUNTS RECEIVABLE

In the governmental funds, accounts receivable consists primarily of sales tax revenue 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 and customers for utility services provided. 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 \$198,828.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 4 – CAPITAL ASSETS

Changes in fixed assets are as follows for the year ended September 30, 2010:

	<u>Balance, September 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, September 30, 2010</u>
Governmental Activities:				
Capital Assets, not depreciated				
Land	\$ 1,962,943	\$ 0	\$ 0	\$ 1,962,943
Construction in Progress	<u>3,408,340</u>	<u>0</u>	<u>3,408,340</u>	<u>0</u>
	5,371,283	0	3,408,340	1,962,943
Capital Assets, depreciated				
Buildings	3,323,500	3,596,431	0	6,919,931
Land Improvements	449,903	0	0	449,903
Infrastructure	21,959,069	739,347	0	22,698,416
Furniture, Machinery & Equip	1,366,188	32,874	0	1,399,062
Vehicles	<u>3,410,756</u>	<u>114,155</u>	<u>353,403</u>	<u>3,171,508</u>
	30,509,416	4,482,807	353,403	34,638,820
Less Accumulated Depreciation	<u>10,687,517</u>	<u>988,849</u>	<u>188,482</u>	<u>11,487,884</u>
Total Capital Assets, depreciated	<u>19,821,899</u>	<u>3,493,958</u>	<u>164,921</u>	<u>23,150,936</u>
Capital Assets, Net	\$ <u>25,193,182</u>	\$ <u>3,493,958</u>	\$ <u>3,573,261</u>	\$ <u>25,113,879</u>

	<u>Balance, September 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, September 30, 2010</u>
Proprietary Activities:				
Capital Assets, not depreciated				
Land	\$ 650,686	\$ 95,130	\$ 0	\$ 745,816
Construction in Progress	<u>495,554</u>	<u>2,061,039</u>	<u>495,554</u>	<u>2,061,039</u>
Total Capital Assets, not depreciated	1,146,240	2,156,169	495,554	2,806,855
Capital Assets, depreciated				
Buildings	16,633,935	0	0	16,633,935
Infrastructure	39,165,847	7,137,290	133,049	46,170,088
Furniture, Machinery & Equip	1,734,439	161,488	0	1,895,927
Vehicles	<u>1,301,967</u>	<u>0</u>	<u>0</u>	<u>1,301,967</u>
	58,836,188	7,298,778	133,049	66,001,917
Less Accumulated Depreciation	<u>19,510,133</u>	<u>1,798,877</u>	<u>0</u>	<u>21,309,010</u>
Total Capital Assets, depreciated	<u>39,326,055</u>	<u>5,499,901</u>	<u>133,049</u>	<u>44,692,907</u>
Capital Assets, Net	\$ <u>40,472,295</u>	\$ <u>7,656,070</u>	\$ <u>628,603</u>	\$ <u>47,499,762</u>

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 4 – CAPITAL ASSETS-continued

The previous schedule reflects a deletion of \$133,049 from the Infrastructure assets. This is due to the impairment of assets added for the radionuclide project. The process did not perform as stated by the supplier. The necessary water standards were not met after the project was implemented. Therefore, the City halted the operation of the equipment and purchased alternate equipment. The City assumed an impairment rate of 100% on equipment, 30% on engineering design services, and 100% on engineer construction services.

Total depreciation expense for the year was \$2,787,724. Depreciation is charged to the following functions in the statement of activities: general government \$26,795, public safety \$217,446, streets and public works \$660,259, culture and recreation \$84,349, airport \$183,963, electric \$496,728, water \$187,245, sewer \$540,846 and civic complex \$390,095.

NOTE 5 – OPERATING LEASE

The City has an operating lease on the land at the Senior Center. 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: 2011 \$1,200; 2012 \$1,200; 2013 \$1,200; 2014 \$1,200; 2015 \$1,200; 2016-2020 \$6,000; 2021-2025 \$6,000; and 2026-2029 \$4,800.

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, 2010 is \$0.

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, 2010 was \$3,535,000.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 6 – LONG-TERM DEBT-continued

Revenue Bonds-continued

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

Year	Business-Type Activities	
	Principal	Interest
2011	\$ 285,000	\$ 197,224
2012	290,000	182,618
2013	300,000	167,538
2014	305,000	167,538
2015	315,000	132,748
2016-2020	1,680,000	390,832
2021	360,000	20,520
Total	\$ 3,535,000	\$ 1,259,018

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 2010, the City paid back \$196,000. As of September 30, 2010, the balance due to the State was \$2,483,569.

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

Year Ended September 30,	Principal
2011	\$ 199,500
2012	203,000
2013	210,000
2014	213,500
2015	220,500
2016-2020	1,176,000
2021	261,069
Total	\$ 2,483,569

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 6 – LONG-TERM DEBT-continued

Due to the State of Missouri-continued

Long-term debt activity for the year ended September 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
General Obligation Bonds	\$ 65,000	\$ 0	\$ 65,000	\$ 0
Business-Type Activities:				
Due to The State of MO	2,679,569	0	196,000	2,483,569
Revenue Bonds	3,815,000	0	280,000	3,535,000
Subtotal	6,494,569	0	280,000	6,018,569
Total	\$ 6,559,569	\$ 0	\$ 345,000	\$ 6,018,569

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, 2010 is \$4,285,000. Of this amount \$1,902,384 is governmental debt and \$2,382,616 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, 2010 is \$4,152,000.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 7 - CAPITAL LEASES-continued

Capital Lease Obligations-continued

The fire apparatus lease was entered into on September 20, 2010. Lease payments are due in annual installments including interest of \$105,000.50 beginning September 20, 2010 until final payment on September 20, 2013. The balance at September 30, 2011 is \$300,000.

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.

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, 2010 is \$2,060,000.

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, 2010 is \$2,046,000.

Future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010 are as follows:

Year Ended September 30,	Governmental Activities	Business-Type Activities	Total
2011	\$ 850,367	\$ 2,109,305	\$ 2,959,672
2012	853,683	2,018,643	2,872,326
2013	849,938	987,441	1,837,379
2014	1,098,306	1,425,595	2,523,901
2015	310,642	440,880	751,522
2016-2020	1,557,561	109,034	1,666,595
2021-2025	1,560,710	0	1,560,710
2026-2030	1,221,805	0	1,221,805
Total Minimum Lease Payments	8,303,012	7,090,898	15,393,910
Less Amount Representing Interest	1,948,628	602,282	2,550,910
Present Value of Minimum Lease Payments	\$ 6,354,384	\$ 6,488,616	\$ 12,843,000

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 7 - CAPITAL LEASES-continued

Assets under capital leases are as follows at September 30, 2010:

Buildings with a cost of \$9,094,254 and accumulated depreciation of \$977,129; Machinery and Equipment with a cost of \$6,339,668 and accumulated depreciation of \$1,796,240; Infrastructure with a cost of \$9,365,726 and accumulated depreciation of \$508,961; and an equipment deposit in the amount of \$549,504 with no accumulated depreciation. Total cost is \$25,349,152 and total accumulated depreciation of \$3,282,330.

NOTE 8 - INTEREST EXPENSE

During the year ended September 30, 2010, \$561,570 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 \$163,778, public safety \$3,055, electric \$41,971, sewer \$259,148 and civic complex \$93,618. 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.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 10 - RETIREMENT PLAN-continued

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 9.5% (general), 9.0% (police), and 10.9% (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 2010, the City's annual pension cost of \$448,433 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 and division, 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 29, 2008 was 15 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
6/30/2008	\$ 399,505	100%	\$0
6/30/2009	\$ 414,230	100%	\$0
6/30/2010	\$ 448,433	100%	\$0

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
2/29/2008	\$ 9,697,345	\$ 9,257,980	\$ (439,365)	105%	\$ 4,264,388
2/28/2009	\$ 8,334,013	\$ 10,260,213	\$ 1,926,200	85%	\$ 4,554,210
2/28/2010	\$ 8,982,035	\$ 10,886,020	\$ 1,903,985	81%	\$ 4,609,368

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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.

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, 2010 no TIF bonds had been issued by the City of Farmington.

In 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

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 11 - TAX INCREMENT FINANCING-continued

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, 2010 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 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.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 14 – INTER-FUND RECEIVABLES AND PAYABLES

As of September 30, 2010, the following inter-fund balances were owed between the various City funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General	Special Allocation	\$ 150,000
General	Airport	\$ 88,847
Special Allocation	General	\$ 108,240
Special Allocation	Capital Projects	\$ 161,710

All balances will be reimbursed to the respective funds within one year.

NOTE 15 – INTER-FUND TRANSFERS

During the year ended September 30, 2010, 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>
Debt Service	General	\$ 19,776	Excess Property Tax
General	Airport	\$ 137,386	Operation Expenses
General	Airport	\$ 147,315	Capital Improvements
General	Civic Complex	\$ 135,000	Senior Center Acquisition
Capital Projects	Civic Complex	\$ 495,334	COP Payment
Capital Projects	Utility	\$ 73,348	Radionuclide Project Costs
Capital Projects	Sewer	\$ 485,831	Transfer Assets and Debt
Capital Projects	Sewer	\$ 3,851,667	Transfer Assets and Debt
Special Allocation	Debt Service	\$ 309,103	Firestation Debt Payment
Capital Projects	Debt Service	\$ 1,130,507	Treatment Plant Debt
General	Special Allocation	\$ 178,122	TIF Projects
Capital Projects	Special Allocation	\$ 231,601	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.

The transfer shown from the capital project fund to the sewer fund for \$3,851,667 represents the transfer of assets expensed and debt included in income in the governmental fund statements but shown as assets and liabilities on the Government-Wide Statement of Activities for the East Water Treatment Plant Project.

NOTE 16 – 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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 17-SUBSEQUENT EVENTS

Sale of Real Estate

The City has approved and entered into a contract for the sale of the old firehouse. The organization purchasing the firehouse will be responsible for paying for improvements to the building. The City will reimburse the organization for project costs not to exceed \$100,000. The funds for this reimbursement will come solely from funds on deposit in the Economic Activity Tax Account within the Special Allocation Fund.

Equipment Purchase

The City also signed a contract for the purchase of radionuclide equipment and a five year operating agreement. See Note 19 for more details.

Subsequent events have been reviewed through March 3, 2011, the date in which the financial statements were made available.

NOTE 18-CONCENTRATION OF REVENUE

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

NOTE 19 -COMMITMENTS AND CONTINGENCIES

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 \$4,500,000 to comply with this order. In February, 2011, the City signed a contract for the purchase of radionuclide equipment. In addition, the City entered into a five year operating agreement. This agreement is renewable for up to twenty years.

NOTE 20 – RELATED PARTY TRANSACTIONS

The Mayor of the City of Farmington holds a position on the Board of Directors at a financial institution with which the City conducts business. At September 30, 2010, the City had deposits of \$8,980,514 at this financial institution.

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

Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Sales Tax	\$ 3,335,000	\$ 3,250,000	\$ 3,246,405	\$ (3,595)
Real and Personal Property Tax	762,000	762,000	767,206	5,206
Grants & Donations	98,450	190,454	192,065	1,611
Charges for Services	709,900	703,900	694,930	(8,970)
Motor Fuel and Vehicle Tax	505,000	505,000	527,500	22,500
Gross Receipts Tax	600,000	625,000	740,010	115,010
Interest Income	20,000	6,000	4,222	(1,778)
Administrative Pilot Payment	862,500	862,500	862,500	-
Other	109,100	108,850	79,749	(29,101)
Total Revenue	7,001,950	7,013,704	7,114,587	100,883
<u>EXPENDITURES</u>				
General Government				
Administration	1,204,000	1,264,500	1,106,943	157,557
Public Safety				
Police	2,018,400	2,098,400	2,076,480	21,920
Municipal Court	83,700	89,100	78,585	10,515
Fire	828,050	877,050	758,066	118,984
Streets and Public Works				
Street	662,400	738,900	717,137	21,763
Public Works	305,400	319,300	316,280	3,020
Maintenance	361,150	376,150	388,591	(12,441)
Culture and Recreation				
Park	599,300	600,800	582,374	18,426
Library	267,450	267,450	264,939	2,511
Capital Outlay	466,100	901,482	218,640	682,842
Debt Service-Principal	0	0	0	-
Total Expenses	6,795,950	7,533,132	6,508,035	1,025,097
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	206,000	(519,428)	606,552	1,125,980
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	230,000	230,000	19,776	(210,224)
Transfers Out	(257,650)	(554,750)	(597,823)	(43,073)
Insurance Proceeds	1,000	250,000	249,000	(1,000)
Lease Proceeds	0	300,000	300,000	-
Total Other Financing Sources(Uses)	(26,650)	225,250	(29,047)	(254,297)
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 179,350	\$ (294,178)	577,505	\$ 871,683
FUND BALANCE, OCTOBER 1, 2009			3,198,835	
FUND BALANCE, SEPTEMBER 30, 2010			\$ 3,776,340	

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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Real and Personal Property Tax	\$ -	\$ -	\$ 441	441
Interest Income	4,500	650	218	(432)
Total Revenue	4,500	650	659	9
<u>EXPENDITURES</u>				
Debt Service Interest and Fees	244,000	342,500	295,761	46,739
Debt Service Principal	570,000	1,585,000	1,160,200	424,800
Total Expenditures	814,000	1,927,500	1,455,961	471,539
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(809,500)	(1,926,850)	(1,455,302)	471,548
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfer In	740,900	1,854,400	1,439,610	(414,790)
Transfer Out	0	(19,800)	(19,776)	24
Total Other Financing Sources (Uses)	740,900	1,834,600	1,419,834	(414,766)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ (68,600)</u>	<u>\$ (92,250)</u>	(35,468)	<u>\$ 56,782</u>
FUND BALANCE, OCTOBER 1, 2009			439,671	
FUND BALANCE, SEPTEMBER 30, 2010			<u>\$ 404,203</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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Sales Tax	\$ 3,335,000	\$ 3,250,000	\$ 3,153,740	\$ (96,260)
Interest Income	19,000	36,400	44,008	7,608
Grant Revenue	110,000	203,400	228,361	24,961
Total Revenue	3,464,000	3,489,800	3,426,109	(63,691)
<u>EXPENDITURES</u>				
Public Works	210,000	210,000	3,546	206,454
Capital Expenditures	7,350,000	7,353,500	7,158,558	194,942
Total Expenditures	7,560,000	7,563,500	7,162,104	401,396
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,096,000)	(4,073,700)	(3,735,995)	337,705
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	1,500,000	0	0	0
Transfers Out	(2,089,100)	(8,396,600)	(2,416,621)	5,979,979
Total Other Financing Sources(Uses)	(589,100)	(8,396,600)	(2,416,621)	5,979,979
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ (4,685,100)</u>	<u>\$ (12,470,300)</u>	(6,152,616)	<u>\$ 6,317,684</u>
FUND BALANCE, OCTOBER 1, 2009			6,908,690	
FUND BALANCE, SEPTEMBER 30, 2010			<u>\$ 756,074</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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
TIF Proceeds From Other Governments	\$ 488,500	\$ 510,000	\$ 425,118	\$ (84,882)
Interest Income	0	1,000	1,544	544
Other Income	0	0	536	536
Total Revenue	488,500	511,000	427,198	(83,802)
<u>EXPENDITURES</u>				
General Government	410,000	397,500	175,622	221,878
Public Works		175,000	175,353	(353)
Capital Expenditures	24,400	24,400	0	24,400
Total Expenditures	434,400	596,900	350,975	245,925
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	54,100	(85,900)	76,223	162,123
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	355,000	375,000	409,723	34,723
Transfers Out	(310,600)	(310,600)	(309,103)	1,497
Total Other Financing Sources(Uses)	44,400	64,400	100,620	36,220
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 98,500	\$ (21,500)	176,843	\$ 198,343
FUND BALANCE, OCTOBER 1, 2009			300,260	
FUND BALANCE, SEPTEMBER 30, 2010			\$ 477,103	

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
TRANSIENT TAX FUND**

Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<u>REVENUES</u>				
Transient Tax Income	\$ 178,000	\$ 178,000	\$ 199,094	\$ 21,094
Interest Income	500	500	38	(462)
Total Revenue	178,500	178,500	199,132	20,632
<u>EXPENDITURES</u>				
General Government	178,500	178,500	157,438	21,062
Total Expenditures	178,500	178,500	157,438	21,062
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	0	0	41,694	41,694
OTHER FINANCING SOURCES(USES)				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources(Uses)	0	0	0	0
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	41,694	<u>\$ 41,694</u>
FUND BALANCE, OCTOBER 1, 2009			0	
FUND BALANCE, SEPTEMBER 30, 2010			<u>\$ 41,694</u>	

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, 2010

Summary of Audit Results

1. The auditors report expressed an unqualified opinion on the financial statements of the City of Farmington, Missouri.
2. One significant deficiency relating to the audit of the financial statements was 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 programs tested as a major program were the Department of Transportation-Air Entitlement Funds, CFDA #20.106, and Department of Transportation-Highway Planning and Construction Funds, CFDA #20.205.
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, 2010

<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 Grants	20.600	\$ 10,290
DWI Enforcement	20.607	19,189
Pass Through Missouri Department of Transportation		
Air Entitlement Funds	20.106	1,350,855
Transportation Enhancement Funds (ARRA)	20.205	207,798
STP Urban Development Grant	20.205	<u>40,201</u>
Total Department of Transportation		1,628,333
Department of Justice		
Justice Assistance Act	16.804	39,187
Drug Task Force	16.738	<u>32,610</u>
Total Department of Justice		71,797
Department of Health and Human Services		
Pass Through Southeast Missouri Area Agency on Aging		
AAA Title III-C Grant	93.045	141,489
AAA Nutrition Grant	93.053	<u>33,575</u>
Total Department of Health and Human Services		<u>175,064</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u><u>1,875,194</u></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, 2010.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2010

FINDINGS-FINANCIAL STATEMENT AUDIT

Significant Deficiencies (Also Material Weakness)

2010-01 Municipal Court Procedures

Condition: There is a lack of segregation of duties in the Municipal Court operation. The police and court utilize separate computer software programs that do not integrate. Therefore, the ability to track a citation from the point of issuance to the point of disposition does not exist. Additionally, the court finances are not subject to general ledger.

Criteria: Procedures within the court operations should be segregated to the extent possible and the court finances should be subject to general ledger control.

Effect: Because the lack of segregation of duties and general ledger control, the risk of fraud and theft is increased.

Recommendation: We recommend that the City implement more segregation of duties in the Court department. In addition, we would recommend that the Police and Court departments use the same software to process all citations. This would allow a citation to be easily traced from issuance to ultimate disposition. We also recommend that the court finances be subject to general ledger control, including the review and approval of all adjustments.

Response: The City concurs with this finding. As of publication of this report, the City has met with a software provider for a demonstration and review of Court software that would be integrated with the current Police Department software. The City is in the process of purchasing the software and is confident that this software will provide the necessary segregation of duties and controls to address the above finding. It is anticipated that the implementation of the software will be completed during the fiscal year ending September 30, 2011.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

PRIOR FINDINGS AND QUESTIONED COSTS

None