

CITY OF FARMINGTON, MISSOURI

FINANCIAL STATEMENTS

September 30, 2011

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, 2011, 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, 2011, 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 21, 2012, 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 49 through 53 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

Thurman, Shinn & Company
Certified Public Accountants
March 21, 2012



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**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, 2011, which collectively comprise the City of Farmington, Missouri's basic financial statements and have issued our report thereon dated March 21, 2012. 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. (2011-01)

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 consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. (2011-02)

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*.

The City of Farmington's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Thurman, Shinn & Company
Certified Public Accountants

March 21, 2012

The logo consists of the letters "TSC" in a bold, serif font, enclosed within a rectangular border.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON 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 City of Farmington, Missouri's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Farmington's major federal programs for the year ended September 30, 2011. 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, 2011.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-03 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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.

City of Farmington's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Farmington's responses and, accordingly, we express no opinion on the responses.

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

Thurman, Shinn & Company
Certified Public Accountants

March 21, 2012

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, 2011. 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.

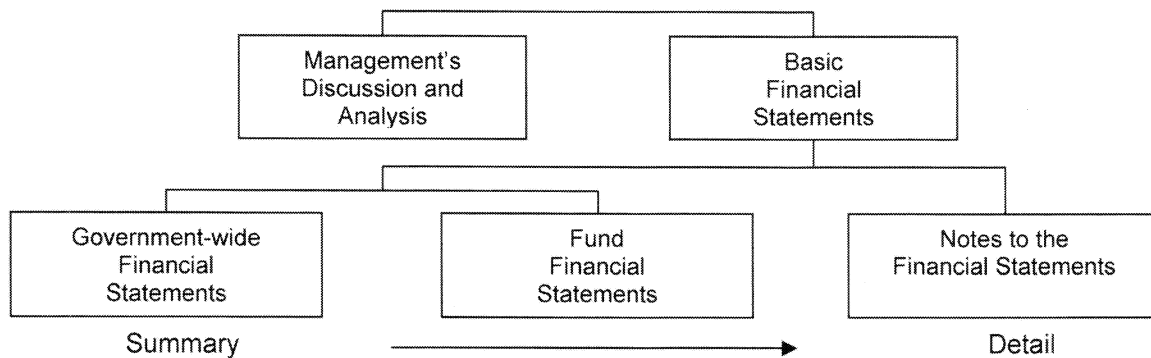
FINANCIAL HIGHLIGHTS

- The assets of the City of Farmington exceeded its liabilities at the close of the fiscal year by \$73,250,427 (*net assets*).
- The government's total net assets increased by \$3,515,110. This increase was realized primarily in the proprietary funds and was largely attributed to the construction of radionuclide treatment equipment for the water system and equipment at the east wastewater treatment plant for the prevention of UV degradation of media. However, the City's governmental funds did experience an increase in capital assets of \$393,191 which is representative of investment in street and sidewalk infrastructure as well as the purchase of a new fire truck.
- As of the close of the fiscal year, the City of Farmington's governmental funds reported combined ending fund balances of \$4,752,854 with a net change of \$(702,561) in fund balance. Approximately 52 percent of the governmental fund balances or \$2,448,978 is available for spending at the government's discretion (*unrestricted fund balance*). Of this amount, only \$2,301,494 is considered unassigned. The remaining \$147,484 are committed or assigned by City Council and management respectively.
- At the end of the fiscal year, the governmental funds full unreserved balance of \$2,448,978 was held in the General Fund. This amounts to approximately 33% of General Fund operating expenditures for the fiscal year (capital outlay and debt service principal not included).
- The City of Farmington's total debt increased by \$2,375,500 (13%) during the fiscal year. This increase was the net effect of a reduction in principal of \$3,179,500 on prior debt and the addition of certificates of participation issuances on the radionuclide treatment equipment in the amount of \$4,535,000 and on the treatment plant UV equipment in the amount of \$1,020,000. The certificates were issued for ten years with interest ranging from 2% to 3.8%. Payments are to be made from water and sewer revenues and were secured by rate increases.
- The payment in lieu of taxes from the electric, water, and sewer departments was set at 5% resulting in a total payment amount of \$1,106,864. It is important to note that this 5% 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 and was upheld by an opinion of the Missouri Supreme Court issued May 2011.
- Financial grants and contributions saw a 52% decrease over the prior fiscal year resulting in total grants and contributions of \$1,028,745. The decrease is due to a decrease in the amount of transportation funds received for expansion at the airport.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Required Components of the 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 government wide financial statements can be found on pages 21 to 22.

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. The Fund Financial Statements include the governmental activities financial statements and the proprietary activities statements. The fund financial statements can be found on pages 23 to 29.

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. Budget to actual comparisons for the governmental funds can be found on pages 28 to 47.

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 are presented on a full accrual basis and provide short and long-term information about the City's financial status as a whole.

There are two government-wide statements included in the basic financial statements: *the statement of net assets* and *the statement of activities*. The statement of net assets presents all the assets and liabilities of the City, the difference of which is the City's net assets. An evaluation of the measure of net assets is one way to gauge the City's financial position and determine if it is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year.

Each of the government-wide statements is 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. These activities are financed primarily through taxes and the general revenue of the City. The business-type activities are those activities that the City intends to recover all, or a significant portion, of their costs through user fees and charges to customers. 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 fund financial statements are reported using an accounting method called *modified accrual accounting* which provides a near-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. Capital assets and other long-term assets and liabilities are not included in the governmental fund financial statements. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds (reported in the governmental funds' balance sheet and statement of revenues, expenditures and change in fund balances) is described in a reconciliation that is a part of the fund financial statements. Revenues are recognized when they are both measurable and available and expenses for the fiscal year are reported when incurred. Debt service payments are reported as expenditures in the year due. Therefore, some revenues will result in cash flows in future fiscal years, and some expenses will result in cash outlays in future fiscal years.
- *Proprietary Funds* – The City of Farmington utilizes *Enterprise Funds* to report the functions presented as business-type activities in the government-wide financial statements. Accounted for under proprietary funds are the 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. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. 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.

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 City Council; 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table reflects a condensed statement of net assets for September 30, 2011 and 2010.

City of Farmington's Statement of Net Assets
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current Assets	\$ 3,582,889	\$ 4,855,463	\$ 8,716,634	\$ 9,344,465	\$ 12,299,523	\$ 14,199,928
Other Assets	1,719,948	1,372,693	6,175,712	3,762,523	7,895,660	5,135,216
Capital assets	25,507,070	25,113,879	51,839,368	47,499,762	77,346,438	72,613,641
Total assets	30,809,907	31,342,035	66,731,714	60,606,750	97,541,621	91,948,785
Long-term liabilities	4,985,024	5,732,303	13,276,680	10,720,422	18,261,704	16,452,725
Current liabilities	1,094,823	1,394,823	4,934,667	4,365,919	6,029,490	5,760,742
Total liabilities	6,079,847	7,127,126	18,211,347	15,086,341	24,291,194	22,213,467
Net assets:						
Invested in capital assets, net of related debt	19,977,206	18,759,495	40,412,281	37,476,146	60,389,487	56,235,641
Restricted	2,303,876	1,679,074	720,655	1,390,604	3,024,531	3,069,678
Unrestricted	2,448,978	3,776,340	7,387,431	6,653,658	9,836,409	10,429,998
Total net assets	\$ 24,730,060	\$ 24,214,909	\$ 48,520,367	\$ 45,520,408	\$ 73,250,427	\$ 69,735,317

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. A review of the government-wide statement of net assets reveals the following:

- At September 30, 2011, the assets of the City of Farmington exceeded liabilities by \$73,250,427. This equates to a 5% (\$3,515,110) increase in net assets as compared to September 30, 2010. This increase consisted of a \$515,151 (14%) increase from governmental activities and a \$2,999,959 (87%) increase from business-type activities.
- Comparatively, the City's investment in capital assets net of related debt is approximately 82% 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.
- Investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding increased by \$4,153,846. Seventy percent (\$2,936,135) of the increase in investments is in the proprietary funds. This increase is largely attributed to the construction of the radionuclide treatment system, installation of equipment at the east treatment plant to prevent ultra-violet degradation of treatment media, improvements at the airport, and facility improvements at the new inventory warehouse and electric department facility. The remaining 30% (\$1,217,711) is in the governmental activities and consists primarily of vehicles, equipment and infrastructure improvements.
- An additional portion of the City of Farmington's net assets \$3,024,531 or 4% represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of \$9,836,409 is unrestricted. The amount of unrestricted assets in relation to total net assets is 13% compared to 15% in the prior year. Of the unrestricted assets, approximately 25% are for governmental type activities and 75% are business type activities.

Management Discussion and Analysis
City of Farmington

The following table reflects the revenues and expenses for the City's activities for the years ended September 30, 2011 and 2010.

City of Farmington's Statement of Activities
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for goods and services	\$ 535,943	\$ 584,286	\$ -	\$ -	\$ 535,943	\$ 584,286
Electric Charges			19,343,552	19,501,528	19,343,552	19,501,528
Water Charges			1,784,785	1,482,013	1,784,785	1,482,013
Sewer Charges			1,900,574	1,915,961	1,900,574	1,915,961
Airport Charges			241,703	176,580	241,703	176,580
Civic Complex			1,376,340	1,331,574	1,376,340	1,331,574
Operating grants and contributions	203,969	192,065	238,575	296,335	442,544	488,400
Capital grants and contributions	141,920	228,361	444,281	1,423,570	586,201	1,651,931
General revenues:						
Sales taxes	6,372,105	6,400,145			6,372,105	6,400,145
Property taxes	781,728	767,647			781,728	767,647
Motor Fuel & Vehicle Tax	532,123	527,500			532,123	527,500
Gross Receipts Tax	592,223	740,010			592,223	740,010
Transient Guest Tax	186,075	199,094			186,075	199,094
Other taxes	161,785	176,525			161,785	176,525
Tax Increment Finance Proceeds	457,315	425,118			457,315	425,118
Interest Income	60,963	50,030	243,022	225,214	303,985	275,244
Administrative Pilot Payment	1,106,864	862,500			1,106,864	862,500
Other	-	14,406			-	14,406
Gain/(Loss) on Disposal of Assets	52,616	84,079	(8,556)		44,060	84,079
Special or Extraordinary Items	149,725	-			149,725	-
Total revenues	11,335,354	11,251,766	25,564,276	26,352,775	36,899,630	37,604,541
Expenses:						
General government	1,658,425	1,466,798			1,658,425	1,466,798
Public safety	3,617,343	3,291,581			3,617,343	3,291,581
Streets and Public Works	2,298,787	2,470,618			2,298,787	2,470,618
Cultural and recreation	972,698	931,662			972,698	931,662
Electric			18,395,046	18,285,895	18,395,046	18,285,895
Water			1,446,867	1,254,790	1,446,867	1,254,790
Sewer			2,348,172	2,138,057	2,348,172	2,138,057
Airport			460,906	389,939	460,906	389,939
Civic Complex			2,186,277	2,085,815	2,186,277	2,085,815
Total expenses	8,547,253	8,160,659	24,837,268	24,154,496	33,384,521	32,315,155
Increase in net assets before transfers	2,788,101	3,091,107	727,008	2,198,279	3,515,109	5,289,386
Transfers	(2,272,951)	(5,325,881)	2,272,951	5,325,881	-	-
Change in net assets	515,150	(2,234,774)	2,999,959	7,524,160	3,515,109	5,289,386
Net assets, October 1	24,214,909	26,449,683	45,520,408	37,996,248	69,735,317	64,445,931
Net assets, September 30	\$24,730,059	\$24,214,909	\$48,520,367	\$45,520,408	\$73,250,426	\$69,735,317

A review of the above statement of activities reflects the following changes during the fiscal year ended September 30, 2011.

Government Wide

- Total revenues decreased \$704,911 or 1.9% for 2011.
- Program revenues net of grants and contributions increased \$190,955, or 0.76%, for 2011. This increase consists of a \$48,343 decrease in governmental-activities charges for goods and services and a \$239,298 increase in business-type activities charges for goods and services.

Management Discussion and Analysis
City of Farmington

- General revenues had an overall increase of \$215,720 or 2.1%. The majority of which was attributed to governmental activities.
- Expenses increased a total of \$1,069,366 or 3%. Thirty-six percent of this increase (\$386,594) was attributable to governmental-activities and 64% (\$682,772) was attributable to business-type activities.

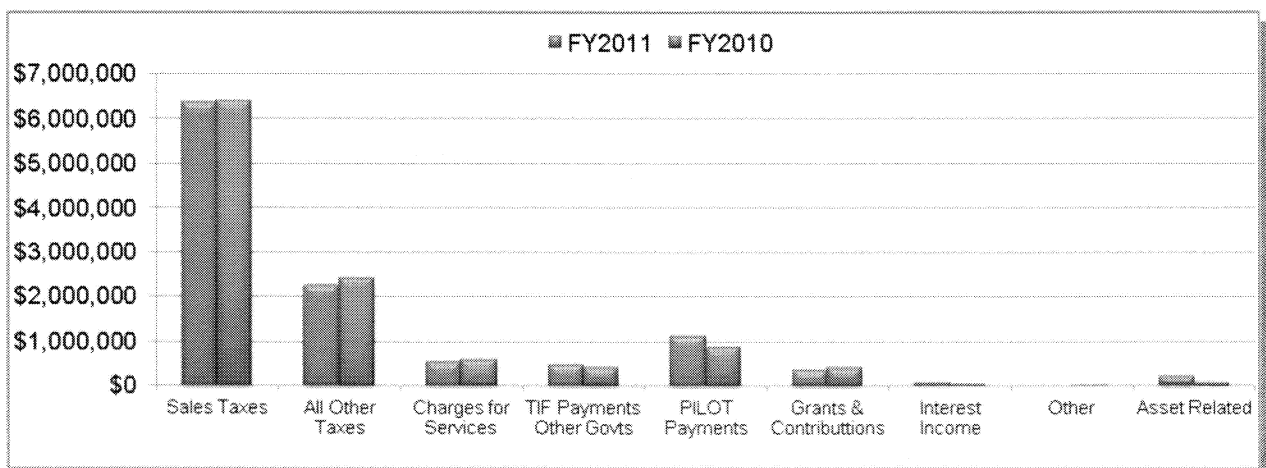
Governmental Activities

Governmental activities increased the City's net assets by \$2,788,101 before transfers accounting for 78.8% of the City's total growth in net assets. Key elements of this change are as follows:

Revenue

- Overall tax revenues remained substantially the same with a less than 1% increase from the prior year amount net of a one-time settlement received in FY2010 in relation to telephone taxes. This change in taxes consisted of:
 - A 0.4% decrease (\$28,040) was seen in sales tax compared to a 0.7% decrease in the prior year.
 - A 1.8% increase in property taxes (\$14,081)
 - A 0.9% increase in motor fuel and vehicle taxes (\$4,623)
 - A 6.5% decrease in transient guest tax receipts (\$13,019)
 - A 10.3% increase in gross receipts taxes, net of the prior year one-time settlement (\$55,134)
 - A 4.6% decrease in other taxes combined (\$7,726)
- Administrative pilot payments increased by \$244,364 or 28.3%. These are payments made from the Utility and Sewer Funds to the General Fund based on a percentage of revenue. The amount transferred is five percent of defined revenue.
- Contributions and operating grants in the amount of \$187,771 in the public safety area and \$16,198 in the cultural and recreation areas were utilized for operating costs.
- Capital grants in the amount of \$114,000 and \$27,920 were received for public safety equipment and streets and sidewalk improvements respectively.
- The City had one item classified as special or extraordinary. This was the sale of the firehouse to Big River Broadband in the amount of \$149,725.

General Revenues by Source
Figure 4



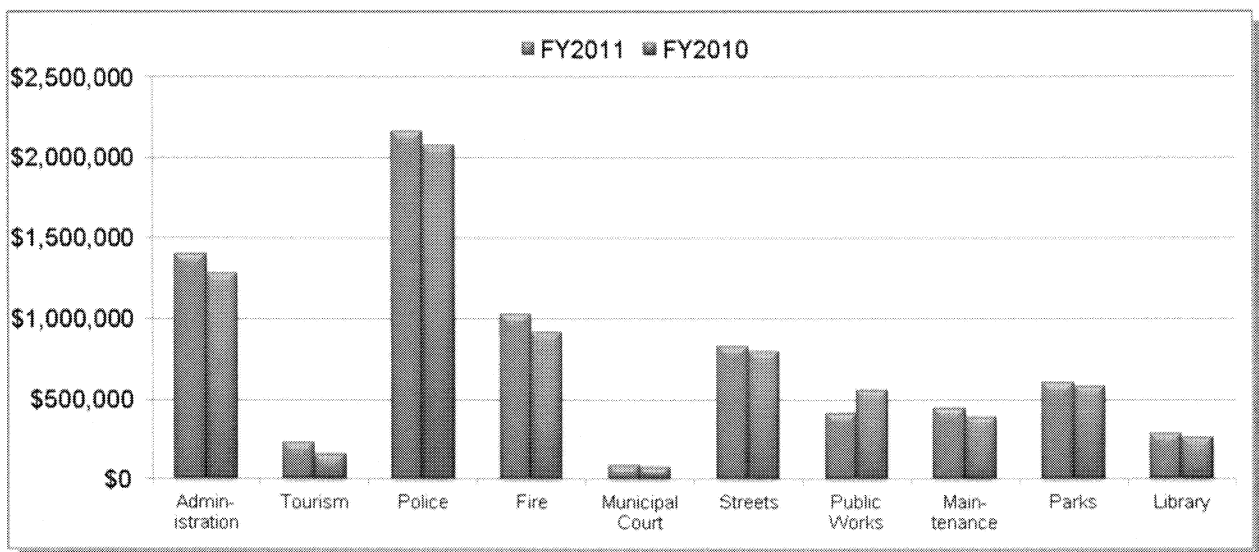
Governmental Activities - continued

Expenses

- The overall increase in operating expenses (does not include debt service principal or capital outlay) was 5.4% or \$383,565. This consisted of:
 - A 13.3% increase in general government expenses (\$191,955)
 - A 6.6% increase in public safety expenses (\$204,369)
 - A 3.0% decrease in streets and public works (\$52,729)
 - A 4.7% increase in culture and recreation (\$39,970)
- Substantial decreases were seen in capital outlay and debt service principal, 80% and 29% respectively. These decreases were due to the completion and transfer in the prior year of the construction projects and debt payments related to the fire station construction and east wastewater treatment plant expansion.

Figure 5 provides a prior year comparison of the functional expenses for the City of Farmington governmental activities.

Expenses by Function
Figure 5



Business-Type Activities

Business-type activities increased the City of Farmington's net assets by \$727,008 before transfers, accounting for 20% of the total growth in the government's net assets. Key elements of this change are as follows:

- Net assets of the Airport Fund increased by \$201,303 (3.0%) before transfers
- Net assets of the Utility Fund increased by \$1,335,699 (7.9%) before transfers.
- Net assets of the Sewer Fund decreased by \$253,816 (2.1%) before transfers.
- Net assets of the Civic Complex Fund decreased by \$556,178 (5.8%) before transfers.

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, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The general fund is the chief operating fund of the City of Farmington. At the end of the current fiscal year, the unassigned General Fund balance is \$2,301,494. As a financial management indicator, it is important to compare unassigned fund balance to total fund expenditures as a general measure of fund liquidity and for adherence to minimum reserve levels as set in the financial policy approved by the City Council. The unassigned fund balance represents approximately 29% of total General Fund expenditures (capital and debt included) which is well above the minimum balance of 13% set in the financial policy and the 17% target operating reserve established in the FY2012 budget.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest. The balance of the Debt Service Fund at September 30, 2011 is \$393,403, all of which is reserved for debt service. No minimum balance policy exists for this fund.

Capital Projects Fund

The capital projects fund is used to account for resources designated to and expenses related to the acquisition of major capital assets or facilities. The balance of the Capital Projects Fund at September 30, 2011 is \$1,100,055. This consists of the following balances: \$603,120 restricted for debt service, \$459,712 restricted for Street and Sidewalk Improvements, and \$37,223 which is in prepaids and unspendable. No minimum balance policy exists for this fund.

Special Allocation Fund

The special allocation fund is used by the city to account for those tax revenues received from tax increment financing districts. The City currently has two distinct districts currently accounted for in this fund. The fund balance at September 30, 2011 is \$775,678, of this balance \$643,863 is restricted for the Karsch-Downtown TIF District and \$131,815 is restricted for the Highway 67 TIF District. No minimum balance policy exists for this fund.

Transient Tax Fund

The tourism tax fund is used by the city to account for those tax revenues received from the transient tax charged on hotel/motel guests. The City contracts with the Farmington Tourism Bureau to provide marketing and promotion of the City with the funds generated by the transient guest tax. At September 30, 2011, the balance of the Transient Tax Fund is \$0. No minimum balance policy exists for this fund.

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 \$7,387,431 at September 30, 2011, an 11% increase over September 30, 2010.

Airport Fund

The airport fund accounts for the activities of the Farmington Regional Airport. These activities include fuel sales, property/hangar rentals, personnel and operating expenses, and capital expansion. The fund balance at September 30, 2011 is \$6,844,922. The amount of net assets that is unrestricted is \$52,348. This equates to

22% of operating expenses.

Utility Fund

The Utility Fund accounts for the activities of the electric utility and water utility. The utility fund net assets at September 30, 2011 are \$18,329,089. The unrestricted net assets are \$6,881,921, a \$145,404 or 2.2% increase over the prior year and 36% of total expenditures (net of principal debt payments and capital).

Sewer Fund

The Sewer Fund accounts for the activities of the sewer utility. Sewer rates are set to cover the cost of operations, debt, and capital improvements. Sewer Fund net assets at September 30, 2011 is \$13,216,874. There are no unrestricted net assets in the sewer fund. All revenues generated are restricted for sewer use. A balance of \$244,245 is held in restricted assets.

Civic Complex Fund

The Civic Complex Fund, which consists of the Civic Center, Centene Center, Water Park, and Senior Center, has net assets of \$10,129,482 at September 30, 2011, of which \$453,162 is unrestricted net assets. This is an increase of \$286,629 or 2.7% over the prior year. This increase is due to a transfer of excess unrestricted reserves from the general fund of \$494,000 in order to fund the Civic Complex reserves to a level as defined by the financial policy.

BUDGETARY HIGHLIGHTS

During the fiscal year, the City revised the budget on two occasions. 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.

The initial budget amendment primary components included:

- An increase in fire expenses for an expedited pay-off of the fire truck lease,
- An increase in transient tax contract expenses for the inclusion of a contract payment to the Tourism Bureau of prior year-end funds,
- Reclassification of the radionuclide project from governmental capital expenses to proprietary and a decrease in original debt costs based on a rate increase and actual certificates of participation issue,
- Reclassification of tax incremental revenues in the TIF district from expenses to interfund transfers,
- An increase in street construction and improvements based on estimated project completions,
- An increase in projected power costs,
- An increase in sewer expenses to include an amount for cost sharing of meters and mxu units for the billing of sewer services.

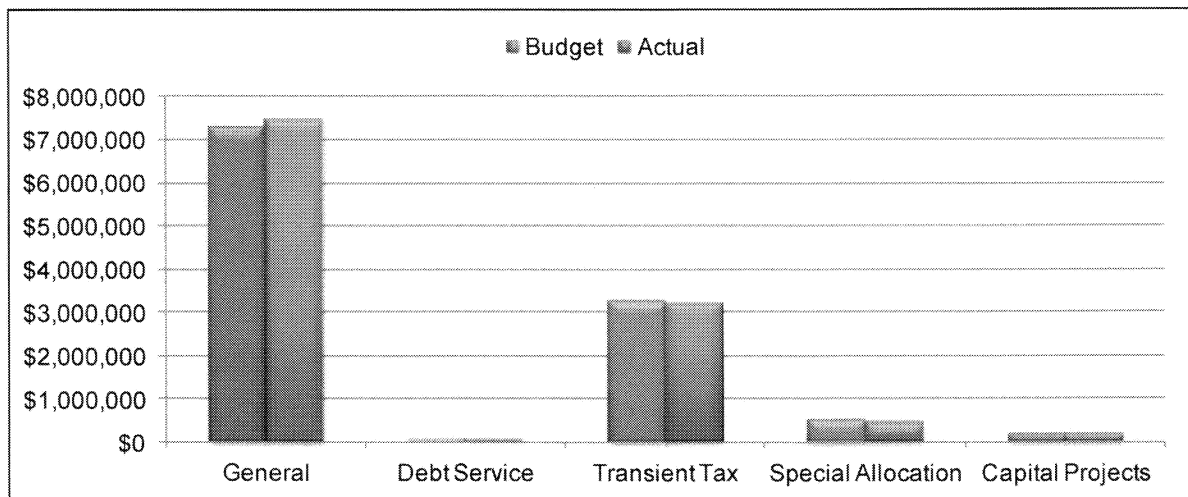
The second budget amendment primarily included transfers between funds. These transfers included:

- A transfer from the Special Allocation Fund to the General Fund for the purchase of a building,
- Transfers from the General Fund to the Civic Complex, Airport and Sewer funds to fund reserves at a level in line with the City's financial policy,
- A transfer from the Capital Projects Fund to the Sewer Fund for treatment plant costs to be paid from the capital improvement tax.

PERFORMANCE TO BUDGET – GOVERNMENTAL FUNDS

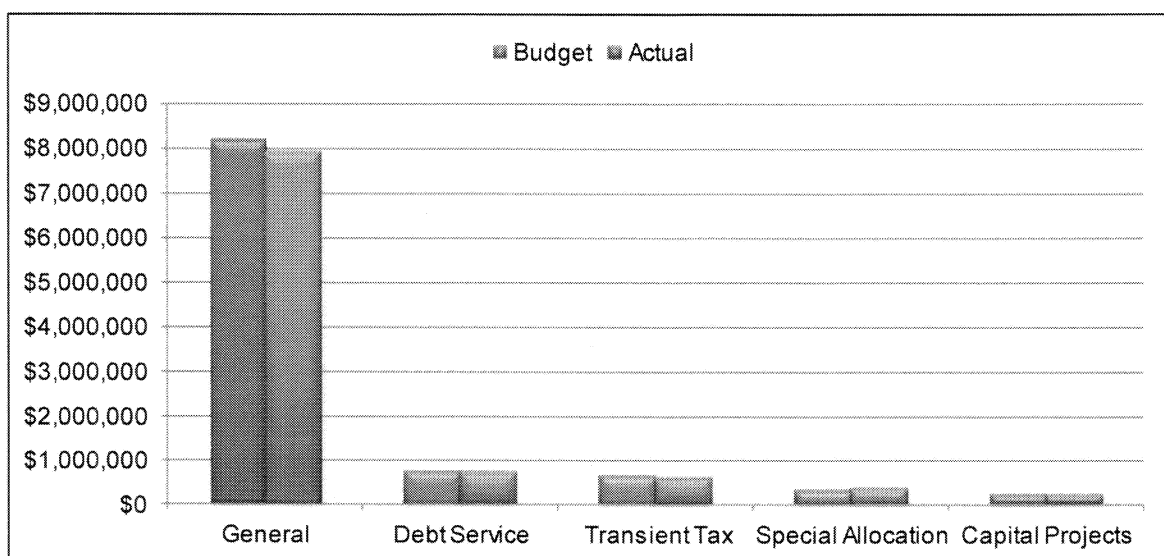
Actual revenues in the Governmental Funds as a whole were \$62,155 or approximately 0.6% above budget. The General Fund program revenues were \$172,091 above budget, primarily due to increases in the gross receipts tax, a refund from the health insurance carrier, and proceeds from the city auction. The Transient Tax Fund tax revenues were \$6,321 above the budgeted amount. Revenues in the Capital Projects Fund were \$40,599 below budget largely due to a decrease in the capital sales tax receipts. The Special Allocation Fund had a variance of \$75,206 in TIF Proceeds below budget primarily due to the withholding of incremental revenues by the St. Francois County Ambulance District.

Governmental Fund Revenues - Budget to Actual
Figure 6



Actual expenditures for the governmental funds as a whole were \$359,536 or 3.6% less than budgeted. This variance was realized due to the postponement of some expenditures, primarily capital related, to adjust for changes in the economy.

Governmental Fund Expenses - Budget to Actual
Figure 7



CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Farmington's investment in capital assets for its governmental and business-type activities as of September 30, 2011, totals \$77,346,439 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. This is a 6.5% increase over the prior year primarily due to the completion of construction on the water radionuclide treatment system and capital construction at the East Wastewater Treatment Plant.

City of Farmington's Capital Assets
Figure 8

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land and Land Improvements	\$ 2,412,846	\$ 2,412,846	\$ 745,816	\$ 745,816	\$ 3,158,662	\$ 3,158,662
Buildings and system	6,799,278	6,919,931	17,550,804	16,633,935	24,350,082	23,553,866
Equipment, Furniture, and Vehicles	4,984,811	4,570,570	2,634,033	3,197,894	7,618,844	7,768,464
Infrastructure	23,262,086	22,698,416	53,393,703	46,170,088	76,655,789	68,868,504
Construction in progress	33,035	-	-	2,061,039	33,035	2,061,039
Total	37,492,056	36,601,763	74,324,356	68,808,772	111,816,412	105,410,535
Less Accumulated Depreciation	11,984,986	11,487,884	22,484,987	21,309,010	34,469,973	32,796,894
Total	\$ 25,507,070	\$ 25,113,879	\$ 51,839,369	\$ 47,499,762	\$ 77,346,439	\$ 72,613,641

Major capital asset transactions during the year include the following:

Governmental Funds

A total of \$1,544,695 in assets was added to the governmental funds during the year ended September 30, 2011. These assets consist of:

- General government related asset additions of \$125,007 for exterior work completed on City Hall and the purchase of a building on East Columbia Street.
- Public safety asset additions of \$745,192 for police vehicles, a fire truck, a firefighting foam trailer, and a police phone system.
- Street and public works asset additions of \$14,425 for facility improvements, \$61,564 for equipment and vehicles, and \$563,670 for streets, sidewalks, curbs and guttering.
- Cultural and recreation asset additions of \$18,611 for facility improvements at JC Park and \$16,226 for parks equipment.

Proprietary Funds

- Completion of \$259,649 in improvements at the airport including work on the runway/taxiway.
- Facility improvements at the Civic and Centene Center of \$32,682 and \$29,195 in fitness equipment.
- Waterpark improvements in the Civic Complex Fund of \$72,101.
- Warehouse facility costs in the Utility Fund of \$522,252 and vehicle purchases of \$146,894.
- Water system improvements of 4,381,913 primarily related to a radionuclide treatment system.
- Sewer system asset additions of \$933,903 for equipment to help alleviate ultraviolet degradation of the media at the East Wastewater Treatment Plant.

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

LONG-TERM DEBT

The City of Farmington's total debt increased by \$2,375,500 (12.6%) during the past fiscal year. This consists of a decrease in principal of \$3,179,500 and \$5,555,000 additional debt for capital projects (water and sewer systems).

The following table reflects the debt held by the City of Farmington:

Revenue Bonds, Certificates of Participation and Capital Leases
Figure 9

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue bonds			3,250,000	3,535,000	3,250,000	3,535,000
Due to State of Missouri			2,284,069	2,483,569	2,284,069	2,483,569
Certificates of Participation	1,533,864	1,902,384	7,476,136	2,382,616	9,010,000	4,285,000
Capital Leases	3,996,000	4,452,000	2,697,000	4,106,000	6,693,000	8,558,000
Total	\$ 5,529,864	\$ 6,354,384	\$ 15,707,205	\$ 12,507,185	\$ 21,237,069	\$ 18,861,569

The debt currently held for the City of Farmington includes:

- Revenue Bonds for sewer system construction in the amount of \$3,250,000 are to be repaid solely through sewer system revenues with the final payment due July 2021.
- At the time the sewer 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 \$2,284,069.
- A balance of \$3,455,000 remains on a capital improvement certificates of participation issue (series 2005) payable from available revenues in the fiscal year. The governmental funds account for \$1,533,864 of the balance, and the proprietary funds account for \$1,921,136 of the balance.
- A new capital lease was entered into in May 2011 for improvements to the water system and wastewater treatment system. Certificates of participation (series 2011) were issued in the amount of \$5,555,000, \$4,535,000 of which is allocated to the water fund to pay for construction of a radio-nuclide treatment system and \$1,020,000 is allocated to the sewer fund to pay for the installation of equipment to prevent ultraviolet degradation of treatment media. Payments begin in May 2012 with the final payment to be made May 2021.
- The City has a total of three capital leases amounting to \$6,693,000. They are as follows:
 - An electric generators capital lease in the amount of \$1,693,000 with final payment due December 2015.
 - A fire station construction capital lease in the amount of \$3,996,000 with final payment due August 2029.
 - An East Treatment Plant Expansion capital lease in the amount of \$1,004,000 with final payment due August 2012.

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 2011 was \$182,515,459, resulting in a legal general obligation debt margin for the City of Farmington of \$36,503,092, which is well above the City's current total

debt obligations.

* 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 Notes 8 and 9 in the Notes to the 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, 2011, the City saw a less than 1% decrease in sales tax receipts. This was attributable to the state of the economy. The City of Farmington 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 \$0.4422 to \$0.4441 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. Unemployment in the area around the City of Farmington on a three month rolling average has consistently exceeded 10% since January of 2009. However, in August 2011 this average fell below the 10% mark. With a 9.8% unemployment rate reported for September 2011, the appearance of a continuing trend was realized. December 2011 marked six straight months below the 10% rate.

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, 2012

Governmental Activities

Budgeted revenues in the governmental funds (net of transfers) are expected to decrease by approximately 2% to approximately \$11.5 million in large part due to a decrease in anticipated grants and contributions. Based on economic reports, sales tax is budgeted to remain substantially the same as in the prior year. 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 4% to approximately \$7.5 million primarily due to an early pay-off of the fire truck having been included in the prior year expenditures. The budget provided for step increases for any employees who were eligible and no change in benefits provided. Governmental funds capital investment continues for the City at \$1,167,200. The primary projects budgeted include additional street and sidewalk improvements and improvements to multiple city facilities.

Business-type Activities

Budgeted revenues in the proprietary funds are expected to increase to approximately \$26.1 million a 2.6% increase over the prior year. Much of this increase is driven by increases in the water rates to address anticipated increased operational costs due to current regulations and capacity. Electric and sewer rates remain unchanged from those rates in effect at September 30, 2011.

Budgeted operating expenditures in the Civic Complex Fund are expected to increase approximately 2%. 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 5% over the prior year actual. This increase is reflective of a delay in some expenditures planned in the previous year but not spent. 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 55% over the prior year actual. These increases are primarily due to the radionuclide treatment program operating and debt service costs. These anticipated increases are offset by an increased customer charge and unrestricted reserves. Sewer Fund expenditures are budgeted to remain substantially the same

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, 2011

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash & Cash Equivalents	\$ 1,990,281	\$ 4,534,429	\$ 6,524,710
Investments	0	0	0
Receivables (Net)	1,520,645	2,787,732	4,308,377
Prepaid Expenses	34,740	91,950	126,690
Prepaid Interest	37,223	0	37,223
Due To/From Other Funds	0	0	0
Equipment Deposit	0	0	0
Inventory	0	1,302,523	1,302,523
Total	3,582,889	8,716,634	12,299,523
<u>NONCURRENT ASSETS</u>			
Restricted Assets:			
Cash & Cash Equivalents	1,327,506	554,302	1,881,808
Investments	392,442	5,505,628	5,898,070
Unamortized Bond Issue Costs	0	115,782	115,782
Capital Assets (Net)	25,507,070	51,839,368	77,346,438
Total	27,227,018	58,015,080	85,242,098
TOTAL ASSETS	30,809,907	66,731,714	97,541,621
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	208,322	1,666,221	1,874,543
Accrued Salaries	229,433	125,150	354,583
Accrued Interest	27,459	103,024	130,483
Taxes Payable	0	74,195	74,195
Builder's Deposits	0	39,223	39,223
Other Payable	84,769	137,694	222,463
Current Portion of Long-Term Debt	544,840	2,789,160	3,334,000
Total	1,094,823	4,934,667	6,029,490
<u>LONG-TERM LIABILITIES</u>			
Customer Deposits Payable	0	358,635	358,635
Due to State of Missouri - State Revolving Fund	0	2,284,069	2,284,069
Bonds Payable	0	3,250,000	3,250,000
Capital Leases Payable	5,529,864	10,173,136	15,703,000
Less Current Maturities	(544,840)	(2,789,160)	(3,334,000)
Total	4,985,024	13,276,680	18,261,704
TOTAL LIABILITIES	6,079,847	18,211,347	24,291,194
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	19,977,206	40,412,281	60,389,487
Restricted for:			
Debt Service	996,523	476,410	1,472,933
Capital Projects	459,712	0	459,712
Nonspendable	71,963	0	71,963
Sewer	0	244,245	244,245
Tax Increment Finance District Projects	775,678	0	775,678
Unrestricted	2,448,978	7,387,431	9,836,409
TOTAL NET ASSETS	\$ 24,730,060	\$ 48,520,367	\$ 73,250,427

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF ACTIVITIES

Year Ended September 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets - Primary Government		
	Expenses	Charges for Services	Capital Grants	Contributions & Operating Grants	Governmental Activities	Business-Type Activities	Totals
FUNCTIONS/PROGRAMS							
Primary Government:							
General Government	\$ 1,658,425	\$ 36,058	\$ 0	\$ 0	\$ (1,622,367)	\$ 0	\$ (1,622,367)
Public Safety	3,617,343	385,271	114,000	187,771	(2,930,301)	0	(2,930,301)
Streets and Public Works	2,298,787	51,634	27,920	0	(2,219,233)	0	(2,219,233)
Culture and Recreation	972,698	62,980	0	16,198	(893,520)	0	(893,520)
Total Governmental Activities	8,547,253	535,943	141,920	203,969	(7,665,421)	0	(7,665,421)
Business-Type Activities:							
Airport	460,906	241,703	429,298	0	0	210,095	210,095
Electric	18,395,046	19,343,552	0	0	0	948,506	948,506
Water	1,446,867	1,784,785	0	0	0	337,918	337,918
Sewer	2,348,172	1,900,574	0	0	0	(447,598)	(447,598)
Civic Complex	2,186,277	1,376,340	14,983	238,575	0	(556,379)	(556,379)
Total Business-Type Activities	24,837,268	24,646,954	444,281	238,575	0	492,542	492,542
Total Primary Government	\$ 33,384,521	\$ 25,182,897	\$ 586,201	\$ 442,544	(7,665,421)	492,542	(7,172,879)
General Revenues:							
Taxes							
Sales Taxes					6,372,105	0	6,372,105
Real and Personal Property Taxes					781,728	0	781,728
Motor Fuel and Vehicle Taxes					532,123	0	532,123
Gross Receipts Taxes					592,223	0	592,223
Transient Guest Tax (Hotel/Motel)					186,075	0	186,075
TIF Proceeds					457,315	0	457,315
Other Taxes					161,785	0	161,785
Administrative Pilot Payment					1,106,864	0	1,106,864
Interest Income					60,963	243,022	303,985
Other					0	0	0
Gain on Disposal of Asset					52,616	(8,556)	44,060
Special Items - Sale of Firehouse					149,725	0	149,725
Transfers					(2,272,951)	2,272,951	0
Total General Revenues and Transfers					8,180,571	2,507,417	10,687,988
Change in Net Assets for the Year					515,150	2,999,959	3,515,109
Net Assets - October 1, 2010					24,214,910	45,520,408	69,735,318
Net Assets - September 30, 2011					\$ 24,730,060	\$ 48,520,367	\$ 73,250,427

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

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

September 30, 2011

	Major Funds					Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	
ASSETS						
Cash & Cash Equivalents	\$ 1,990,281	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,990,281
Investments	0	0	0	0	0	-
Accounts Receivable	827,483	0	447,425	215,316	30,421	1,520,645
Prepaid Expenses	34,740	0	0	0	0	34,740
Prepaid Interest	0	0	37,223	0	0	37,223
Due From Other Funds	0	0	0	0	0	0
Equipment Deposit	0	0	0	0	0	0
Restricted Assets:						
Cash & Investments	12,000	420,862	618,665	613,717	54,704	1,719,948
TOTAL ASSETS	\$ 2,864,504	\$ 420,862	\$ 1,103,313	\$ 829,033	\$ 85,125	\$ 5,302,837
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 68,312	\$ 0	\$ 3,258	\$ 51,627	\$ 85,125	\$ 208,322
Accrued Salaries	229,433	0	0	0	0	229,433
Accrued Interest Payable	0	27,459	0	0	0	27,459
Due to Other Funds	0	0	0	0	0	0
Other Liabilities	83,041	0	0	1,728	0	84,769
TOTAL LIABILITIES	380,786	27,459	3,258	53,355	85,125	549,983
FUND BALANCES						
Nonspendable						
Prepays	34,740	0	37,223	0	0	71,963
Restricted						
Debt Service	0	40,419	603,120	0	0	643,539
Debt Service Reserve	0	352,984	0	0	0	352,984
Capital Projects	0	0	459,712	0	0	459,712
Karsch-Downtown TIF District	0	0	0	643,863	0	643,863
Highway 67 TIF District	0	0	0	131,815	0	131,815
Committed						
Acquisition/Improvement of Public Spaces	36,261	0	0	0	0	36,261
Assigned						
Other Purposes	75,081	0	0	0	0	75,081
Wilson Rozier Ballpark	36,142	0	0	0	0	36,142
Unassigned	2,301,494	0	0	0	0	2,301,494
TOTAL FUND BALANCES	2,483,718	393,403	1,100,055	775,678	0	4,752,854
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,864,504	\$ 420,862	\$ 1,103,313	\$ 829,033	\$ 85,125	\$ 5,302,837

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

Total Fund Balance - Total Governmental Funds		\$ 4,752,854
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.		
Governmental capital assets	\$ 37,492,056	
Less accumulated depreciation	(11,984,986)	25,507,070
Long-term liabilities, including leases payable and loans payable are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds.		
Leases Payable	(5,529,864)	(5,529,864)
Net Assets of Governmental Activities		\$ 24,730,060

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, 2011

	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	Total Governmental Funds
REVENUES						
Sales Tax	\$ 3,236,467	\$ 0	\$ 3,135,638	\$ 0	\$ 0	\$ 6,372,105
Real and Personal Property Tax	781,728	0	0	0	0	781,728
Grants and Donations	317,969	0	27,920	0	0	345,889
Charges for Services	486,329	0	0	0	0	486,329
Motor Fuel and Vehicle Tax	532,123	0	0	0	0	532,123
Utility, Gross Receipts & Other Taxes	754,008	0	0	0	0	754,008
Transient Guest (Hotel/Motel) Tax	0	0	0	0	186,075	186,075
Interest Income	3,148	48	57,142	579	46	60,963
TIF Proceeds From Other Governments	0	0	0	457,315	0	457,315
Administrative Pilot Payment	1,106,864	0	0	0	0	1,106,864
Other	49,614	0	0	0	0	49,614
Total Operating Revenues	7,268,250	48	3,220,700	457,894	186,121	11,133,013
EXPENSES						
General Government						
Administration	1,176,329	0	0	227,814	0	1,404,143
Tourism	0	0	0	0	227,815	227,815
Public Safety						
Police	2,162,408	0	0	0	0	2,162,408
Municipal Court	89,807	0	0	0	0	89,807
Fire	814,622	126,738	0	0	0	941,360
Streets and Public Works						
Street	767,944	62,489	0	0	0	830,433
Public Works	409,867	0	0	0	0	409,867
Maintenance	442,635	0	0	0	0	442,635
Culture and Recreation						
Park	600,524	0	0	0	0	600,524
Library	286,759	0	0	0	0	286,759
Capital Outlay	848,647	0	571,040	125,006	0	1,544,693
Debt Service-Principal	300,000	524,520	0	0	0	824,520
Total Expenses	7,899,542	713,747	571,040	352,820	227,815	9,764,964
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(631,292)	(713,699)	2,649,660	105,074	(41,694)	1,368,049
OTHER FINANCING SOURCES (USES)						
Transfer In	0	702,898	0	465,466	0	1,168,364
Transfer Out	(863,671)	0	(2,305,679)	(271,965)	0	(3,441,315)
Gain/Loss on Asset	202,341	0	0	0	0	202,341
Insurance Proceeds	0	0	0	0	0	0
Lease Proceeds	0	0	0	0	0	0
Total Other Financing Sources And Uses	(661,330)	702,898	(2,305,679)	193,501	0	(2,070,610)
NET CHANGE IN FUND BALANCES	(1,292,622)	(10,801)	343,981	298,575	(41,694)	(702,561)
FUND BALANCES - OCTOBER 1, 2010	3,776,340	404,204	756,074	477,103	41,694	5,455,415
FUND BALANCES - SEPTEMBER 30, 2011	\$ 2,483,718	\$ 393,403	\$ 1,100,055	\$ 775,678	\$ 0	\$ 4,752,854

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, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (702,561)
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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	1,544,695
Depreciation	(1,029,686)

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 Assets	(654,401)
Accumulated Depreciation	532,583

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.

824,520

Change in Net Assets of Governmental Activities as Reported on the Statement of Activities	<u>\$ 515,150</u>
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The accompanying notes are an integral part of these financial statements.

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

September 30, 2011

	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>ASSETS</u>					
<u>CURRENT ASSETS</u>					
Cash & Cash Equivalents	\$ 33,659	\$ 3,981,397	\$ 0	\$ 519,373	\$ 4,534,429
Accounts Receivable	7,707	2,494,733	261,573	23,719	\$ 2,787,732
Due From Other Funds	0	668,182	0	0	668,182
Prepays	987	71,876	14,233	4,854	\$ 91,950
Inventory	46,702	1,238,709	17,112	0	\$ 1,302,523
Total	89,055	8,454,897	292,918	547,946	9,384,816
<u>NONCURRENT ASSETS</u>					
Restricted Assets:					
Cash & Cash Equivalents	0	0	554,302	0	554,302
Investments	0	1,553,488	3,475,730	476,410	5,505,628
Unamortized Bond Issue Costs	0	87,684	28,098	0	115,782
Advances To Other Funds	0	0	0	0	0
Capital Assets (Net of Accumulated Depreciation)	6,792,574	16,579,734	17,346,014	11,121,046	51,839,368
Total	6,792,574	18,220,906	21,404,144	11,597,456	58,015,080
TOTAL ASSETS	6,881,629	26,675,803	21,697,062	12,145,402	67,399,896
<u>LIABILITIES</u>					
<u>CURRENT LIABILITIES</u>					
Accounts Payable	34,474	1,455,663	155,512	20,572	1,666,221
Accrued Salaries	1,891	65,133	27,000	31,126	125,150
Accrued Interest	0	55,998	12,640	34,386	103,024
Taxes Payable	0	74,195	0	0	74,195
Due to Other Funds	0	0	668,182	0	668,182
Builder's Deposits	0	39,223	0	0	39,223
Other Liabilities	342	69,867	58,785	8,700	137,694
Current Portion of Long-Term Debt	0	734,000	1,577,000	478,160	2,789,160
Total	36,707	2,494,079	2,499,119	572,944	5,602,849
<u>LONG-TERM LIABILITIES</u>					
Customer Deposits Payable	0	358,635	0	0	358,635
Advances From Other Funds	0	0	0	0	0
Due to State of Missouri - State Revolving Fund	0	0	2,284,069	0	2,284,069
Revenue Bonds Payable	0	0	3,250,000	0	3,250,000
Capital Leases Payable	0	6,228,000	2,024,000	1,921,136	10,173,136
Less Current Maturities	0	(734,000)	(1,577,000)	(478,160)	(2,789,160)
Total	0	5,852,635	5,981,069	1,442,976	13,276,680
TOTAL LIABILITIES	36,707	8,346,714	8,480,188	2,015,920	18,879,529
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	6,792,574	11,447,168	12,972,629	9,199,910	40,412,281
Restricted	0	0	244,245	476,410	720,655
Unrestricted	52,348	6,881,921	0	453,162	7,387,431
TOTAL NET ASSETS	<u>\$ 6,844,922</u>	<u>\$ 18,329,089</u>	<u>\$ 13,216,874</u>	<u>\$ 10,129,482</u>	<u>\$ 48,520,367</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, 2011

	Enterprise Funds				
	Airport Fund	Utility Fund	Sewer Fund	Civic Complex Fund	Totals
<u>OPERATING REVENUES</u>					
Charges for Services:					
Airport Charges	\$ 241,703	\$ 0	\$ 0	\$ 0	\$ 241,703
Electric Charges	0	19,343,552	0	0	19,343,552
Water Charges	0	1,784,785	0	0	1,784,785
Sewer Charges	0	0	1,900,574	0	1,900,574
Civic Complex Charges	0	0	0	1,376,340	1,376,340
Total Operating Revenues	241,703	21,128,337	1,900,574	1,376,340	24,646,954
<u>OPERATING EXPENSES</u>					
Airport Expenses	238,048	0	0	0	238,048
Electric Expenses	0	17,889,726	0	0	17,889,726
Water Expenses	0	1,232,846	0	0	1,232,846
Sewer Expenses	0	0	1,712,345	0	1,712,345
Civic Complex Expenses	0	0	0	1,710,482	1,710,482
Depreciation	222,858	719,341	635,827	397,543	1,975,569
Total Operating Expenses	460,906	19,841,913	2,348,172	2,108,025	24,759,016
OPERATING INCOME (LOSS)	(219,203)	1,286,424	(447,598)	(731,685)	(112,062)
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Grant Income	429,298	0	0	180,795	610,093
Contributions	0	0	0	72,763	72,763
Interest Income	(236)	49,275	193,782	201	243,022
Cost of Issuance and Bond Fees	0	0	0	0	0
Interest Expense	0	0	0	(78,252)	(78,252)
Gain or Loss on Disposal of Assets	(8,556)	0	0	0	(8,556)
Total Nonoperating Revenues (Expenses)	420,506	49,275	193,782	175,507	839,070
NET INCOME (LOSS) BEFORE TRANSFERS	201,303	1,335,699	(253,816)	(556,178)	727,008
Transfer In	128,672	0	1,111,862	1,032,417	2,272,951
Transfer Out	0	0	0	0	0
Total Transfers	128,672	0	1,111,862	1,032,417	2,272,951
CHANGE IN NET ASSETS	329,975	1,335,699	858,046	476,239	2,999,959
NET ASSETS - OCTOBER 1, 2010	6,514,947	16,993,390	12,358,828	9,653,243	45,520,408
NET ASSETS - SEPTEMBER 30, 2011	\$ 6,844,922	\$ 18,329,089	\$ 13,216,874	\$ 10,129,482	\$ 48,520,367

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, 2011

	<u>Airport Fund</u>	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Civic Complex Fund</u>	<u>Totals</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 238,636	\$ 21,047,411	\$ 1,875,066	\$ 1,379,236	\$ 24,540,349
Payments to Suppliers	(530,305)	(17,847,846)	(901,007)	(1,040,990)	(20,320,148)
Payments to Employees	(27,330)	(927,986)	(384,185)	(698,683)	(2,038,184)
Net Cash Provided (Used) By Operating Activities	(318,999)	2,271,579	589,874	(360,437)	2,182,017
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers In	128,672	0	1,111,862	1,032,417	2,272,951
Contributions and Operating Grants	0	0	0	238,575	238,575
Loans To/From Other Funds	(88,847)	(668,182)	668,182	0	(88,847)
Nonoperating Grant Receipts	542,331	0	0	14,983	557,314
Net Cash Provided (Used) By Nonoperating Activities	582,156	(668,182)	1,780,044	1,285,975	2,979,993
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Principal Payments on Long-Term Debt	0	(353,000)	(1,540,500)	(461,480)	(2,354,980)
Interest Paid	(236)	(87,271)	(233,022)	(77,032)	(397,561)
Cost of Issuance	0	(58,528)	1,998	0	(56,530)
Bond Fees	0	(41,037)	(66,797)	(1,220)	(109,054)
Capital Leases	0	2,981,513	16,356	0	2,997,869
Acquisition of Capital Assets	(259,649)	(4,996,202)	(933,903)	(133,978)	(6,323,732)
Net Cash Used By Capital And Related Financing Activities	(259,885)	(2,554,525)	(2,755,868)	(673,710)	(6,243,988)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemption of Investments	0	0	173,068	8,303	181,371
Investment Earnings	0	49,274	193,782	201	243,257
Net Cash Provided by Investing Activities	0	49,274	366,850	8,504	424,628
Net Change in Cash and Cash Equivalents	3,272	(901,854)	(19,100)	260,332	(657,350)
Balances at October 1, 2010	30,387	4,883,251	573,403	259,041	5,746,082
Balances at September 30, 2011	\$ 33,659	\$ 3,981,397	\$ 554,303	\$ 519,373	\$ 5,088,732
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (219,203)	\$ 1,286,424	\$ (447,598)	\$ (809,937)	\$ (190,314)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation Expenses	222,858	719,341	635,827	397,543	1,975,569
Amortization of COP Issuance Costs	0	41,037	66,797	0	107,834
Interest Payments Reported as Operating Expenses	0	87,271	233,022	78,252	398,545
Changes in Assets and Liabilities					
Accounts Receivable	(3,067)	(62,025)	(25,508)	2,896	(87,704)
Prepays	(169)	(21,957)	9,648	(246)	(12,724)
Inventory	2,753	64,310	(1,238)	0	65,825
Accounts Payable & Other Payables	(322,316)	171,328	115,020	(29,550)	(65,518)
Customer and Builder Deposits Payable	0	(18,901)	0	0	(18,901)
Accrued Salaries and Compensated Absences	145	4,751	3,904	605	9,405
Net Cash Provided (Used) by Operating Activities	\$ (318,999)	\$ 2,271,579	\$ 589,874	\$ (360,437)	\$ 2,182,017

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

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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

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 and operating grants which finance annual operating activities; and (3) capital grants which fund the acquisition, construction, or rehabilitation of capital assets of a particular function. 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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The City utilizes the following 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 not accounted for and reported in another fund.

Capital Project Fund - Capital Project Funds account for all financial resources that are restricted, committed, or assigned to expenditure 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 all financial resources that are restricted, committed, or assigned to expenditure 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 Tax Increment Finance (TIF) districts. TIF district funds are to be used for those purposes outlined in the respective district plans.

Transient Tax Fund – The Transient Tax Fund is used to account for the financial resources derived from the Transient Tax. Transient taxes are to be used solely for the purpose of promoting Farmington as a visitor and tourist center.

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. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

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 measurable and available. 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. Primary 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. Expenditures are recorded when the related fund liability is incurred, except for debt service payments which are reported as expenditures in the year due.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

Proprietary funds distinguish operating revenue and expenses from non-operating revenue and expenses. Operating revenue and expenses generally result from providing goods or services as a part of 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 (i.e. salaries, benefits, supplies, etc.) 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.

Deposits and Investments

For the purpose of reporting, "cash" and "cash equivalents" includes all demand and savings accounts, certificates of deposit, and short-term investments with an original maturity of three months or less. Restricted cash and cash equivalents includes all demand and savings accounts, certificates of deposit, and investments whose maturity is greater than three months or whose use is subject to constraints by creditors, grantors, contributors, or laws or regulations.

Cash resources of certain individual funds are combined to form a pool of cash. Interest income earned is distributed to the appropriate funds based on the ending monthly balance of cash for each fund. In the event a fund overdraws its share of the pooled cash, the overdraft is reported as an interfund payable in that fund and an interfund receivable in the General Fund. However, in certain cases, the Utility Fund unassigned cash may be used to borrow money to the other proprietary funds which would otherwise experience a temporary overdraft. In this situation, the interfund receivable is recorded in the Utility Fund.

Accounts Receivable - Unbilled Revenue

The City records as accounts receivable in the Enterprise Fund financial statements the amount of accrued, but unbilled revenue for the Electric and Water Utility and Sewer Funds, determined by prorating actual subsequent billings.

Inventories

The enterprise funds have parts and supplies on hand for use in maintaining the utility systems and aviation fuel for resale at the airport. Inventories are physically counted both periodically and annually. These items are recorded at cost and expensed as used based off of the annual count. The cost basis is applied for valuation using a first in-first out methodology.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. In governmental funds, a portion of fund balance equal to the prepaid items has been classified as unspendable to indicate that it is not available for appropriation.

Restricted Assets

Certain proceeds of the City's bonds and certificates of participation (COP) issues, 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, COP financing agreements, or other statutory provisions.

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 using a price deflator related to the assets' year of acquisition. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets are defined by the City as assets having a useful life of more than one year and an initial cost as follows:

Buildings	\$ 25,000
Equipment – Office	\$ 5,000
Equipment – Non-office	\$ 15,000
Vehicles	\$ 15,000
Infrastructure/Improvements	\$ 25,000

The costs of normal maintenance and repairs that do not add to the value of assets or significantly extend assets lives are expensed rather than capitalized.

Land assets and construction in progress projects are not depreciated; however all other capital assets are depreciated using the straight-line method over the useful lives of the assets. 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

Compensated Absences

City employees earn sick leave benefits and varying amounts of paid vacation 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. Under certain circumstances, accumulated sick leave is payable at fifty percent. Compensated absences are reported in accrued salaries in the government-wide and fund financial statements.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

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.

Minimum Fund Balance Policy

The City's policy is to maintain a minimum unassigned General Fund balance equal to 13% of expenditures for the adopted budget. These funds will be used to avoid cash flow interruptions, generate interest income, reduce the need for short-term borrowing and assist in maintaining financial ratings.

Fund Equity

There are three segments that make up fund equity in the government-wide and proprietary financial statements. These are Invested in Capital Assets Net of Related Debt, Restricted, and Unrestricted.

- The amounts listed as Invested in Capital Assets, Net of Related Debt represent capital assets, net of accumulated depreciation, less the outstanding balances for any notes, lease or other borrowings that are attributable to the acquisition, construction or improvements of the assets. Net assets invested in capital assets, net of related debt excludes unspent bond and loan proceeds.
- Restricted net assets are legally restricted or identified for specific purposes by outside parties or by law through constitutional provisions or enabling legislation.
- Unrestricted net assets are the residual assets and represent assets available for future operations or distribution.

There are five classifications of fund balance in the governmental fund financial statements. These classifications are based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the City governmental funds, which include the General Fund, Debt Service Fund, Transient Tax Fund, Special Allocation Fund and Capital Projects Fund.

- *Restricted fund balances* are amounts that are restricted to specific purposes either by a) constraints placed on the use of the resources by external resource providers such as creditors, grantors, contributors, or laws or regulation of other governments or b) imposed by law through the constitutional provisions or enabling legislation.
- *Committed fund balances* are those amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

- *Assigned fund balances* are any amounts for which it is the City's intent that the funds be used for specific purposes but there exists no legal or binding restrictions or commitments. Assignments are made by City management.
- *Non-spendable fund balances* include amounts that cannot be spent because they are either a) not in spendable form (inventory and prepaid items) or b) legally or contractually required to be maintained intact.
- *Unassigned fund balance* is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Unassigned balances represent the amount available for budgeting future operations.

When an expenditure is incurred which may be paid for using either restricted or unrestricted resources, the City's policy is to pay the expenditure based upon the method defined at the time the expenditure was budgeted.

The fund balance classifications for the governmental funds at September 30, 2011 are:

FUND BALANCES	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	SPECIAL ALLOCATION FUND	TRANSIENT TAX FUND	TOTAL GOVERN- MENTAL FUNDS
Non-spendable						
Prepays	\$ 34,740	\$ 0	\$ 37,223	\$ 0	\$ 0	\$ 71,963
Restricted						
Debt Service Reserve	0	352,984	0	0	0	352,984
Debt Service	0	40,419	603,120	0	0	643,539
Karsch-Downtown TIF District	0	0	0	643,863	0	643,863
Highway 67 TIF District	0	0	0	131,815	0	131,815
Street and Sidewalk Improvements	0	0	459,712	0	0	459,712
	0	393,403	1,062,832	775,678	0	2,231,913
Committed						
Improvement of Public Spaces	36,261	0	0	0	0	36,261
Assigned						
Other Purposes	75,081	0	0	0	0	75,081
Wilson Rozier Ball park	36,142	0	0	0	0	36,142
	111,223	0	0	0	0	111,223
Unassigned	2,301,494	0	0	0	0	2,301,494
Total Fund Balances	\$ 2,483,718	\$ 393,403	\$ 1,100,055	\$ 775,678	\$ 0	\$ 4,752,854

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, 2011 was prepared and adopted using the modified accrual basis of accounting for governmental funds and accrual accounting for proprietary funds.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

Use of Estimates

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

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.

Intragovernmental Revenue

The Electric and Water Utility Fund and the Sewer Fund remit to the General Fund a budgeted percent of revenue as payment for management and accounting services rendered by the General Fund and use of easements.

NOTE 2 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2010, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The purpose of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

NOTE 3 – ACCOUNT RECEIVABLES AND PAYABLES

Account Receivable

In the governmental funds, accounts receivable consists primarily of sales tax revenues due from the state, municipal court receivables, and economic activity taxes due to the Tax Increment Finance Districts from outside entities. Other receivables due include a cost sharing payment due from the school district for school resource officer services, fuel taxes, property taxes, hotel taxes, and FEMA disaster recovery assistance. These receivables are recorded when they are both measurable and available.

In the proprietary funds accounts receivable consists primarily of amounts due from customers for utility services provided. These receivables are recorded when the earning process is complete and services have been provided. Other receivables due include Civic Center memberships, MODOT grant reimbursements, and airport rentals/leases.

The City considers these accounts receivable fully collectible, except the municipal court and property tax receivables. Therefore, only an allowance of \$260,855 is recorded (municipal court receivables allowance \$239,137; property tax receivables allowance \$21,718).

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 3 – ACCOUNTS RECEIVABLES AND PAYABLES-continued

Accounts receivable balances at September 30, 2011 are as follows:

	<u>Accounts Receivable</u>	<u>Grants Receivable</u>	<u>Taxes Receivable</u>	<u>Total Receivable</u>	<u>Bad Debt Allowance</u>	<u>Net Receivable</u>
Governmental Activities:						
General	\$ 486,359	\$ 9,172	\$ 592,807	\$ 1,088,338	\$ 260,855	\$ 827,483
Capital Projects	0	0	447,425	447,425	0	447,425
TIF Districts	215,316	0	0	215,316	0	215,316
Transient Tax	0	0	30,421	30,421	0	30,421
Total Governmental Activities	<u>701,675</u>	<u>9,172</u>	<u>1,070,653</u>	<u>1,781,500</u>	<u>260,855</u>	<u>1,520,645</u>
Business Type Activities:						
Airport	3,498	4,209	0	7,707	0	7,707
Water and Electric Utility	2,494,733	0	0	2,494,733	0	2,494,733
Sewer Utility	261,573	0	0	261,573	0	261,573
Civic Complex	23,719	0	0	23,719	0	23,719
Total Business Type Activities	<u>\$ 2,783,523</u>	<u>\$ 4,209</u>	<u>\$ 0</u>	<u>\$ 2,787,732</u>	<u>\$ 0</u>	<u>\$ 2,787,732</u>

Accounts Payable

Accounts payable consist of amounts due to vendors. These amounts are expected to be paid within one year. Those items for which service or product has been received, but were not invoiced by the vendor at September 30, 2011 have been accrued. Governmental activities reported accounts payable in the amount of \$208,322. Business-type activities reported accounts payable in the amount of \$1,666,221, of which \$1,037,951 was due to a single vendor for the purchase of power for the month of September for the electric utility.

Payable balances at September 30, 2011 are as follows:

	<u>Payments to Vendors</u>	<u>Payments to Employees</u>	<u>Interest Payable</u>	<u>Taxes Payable</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 68,312	\$ 229,433	\$ 0	\$ 0	\$ 297,745
Debt Service	0	0	27,459	0	27,459
Capital Projects	3,258	0	0	0	3,258
TIF Districts	51,627	0	0	0	51,627
Transient Tax	85,125	0	0	0	85,125
Total Governmental Activities	<u>208,322</u>	<u>229,433</u>	<u>27,459</u>	<u>0</u>	<u>465,214</u>
Business Type Activities:					
Airport	34,474	1,891	0	0	36,365
Water and Electric Utility	1,455,663	65,133	55,998	74,195	1,650,989
Sewer Utility	155,512	27,000	12,640	0	195,152
Civic Complex	20,572	31,126	34,386	0	86,084
Total Business Type Activities	<u>\$ 1,666,221</u>	<u>\$ 125,150</u>	<u>\$ 103,024</u>	<u>\$ 74,195</u>	<u>\$ 1,968,590</u>

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 4 – CAPITAL ASSETS

Changes in fixed assets are as follows for the year ended September 30, 2011:

	Balance, September 30, 2010	Additions	Deletions	Balance, September 30, 2011
Governmental Activities:				
Capital Assets, not depreciated				
Land	\$ 1,962,943	\$ 0	\$ 0	\$ 1,962,943
Construction in Progress	0	33,035	0	33,035
Total Capital Assets, not depreciated	1,962,943	33,035	0	1,995,978
Capital Assets, depreciated				
Buildings	6,919,931	132,377	253,030	6,799,278
Land Improvements	449,903	0	0	449,903
Infrastructure	22,698,416	563,670	0	23,262,086
Furniture, Machinery & Equip	1,399,062	175,066	34,268	1,539,860
Vehicles	3,171,508	640,546	367,103	3,444,951
	34,638,820	1,511,659	654,401	35,496,078
Less Accumulated Depreciation	11,487,884	1,029,686	532,583	11,984,987
Total Capital Assets, depreciated	23,150,936	481,973	121,818	23,511,091
Capital Assets, Net	\$ 25,113,879	\$ 515,009	\$ 121,818	\$ 25,507,070

	Balance, September 30, 2010	Additions	Deletions	Balance, September 30, 2011
Proprietary Activities:				
Capital Assets, not depreciated				
Land	\$ 745,816	\$ 0	\$ 0	\$ 745,816
Construction in Progress	2,061,039	0	2,061,039	0
Total Capital Assets, not depreciated	2,806,855	0	2,061,039	745,816
Capital Assets, depreciated				
Buildings	16,633,935	948,866	31,997	17,550,804
Infrastructure	46,170,088	7,223,615		53,393,703
Furniture, Machinery & Equip	1,895,927	65,396	346,793	1,614,530
Vehicles	1,301,967	146,894	429,358	1,019,503
	66,001,917	8,384,771	808,148	73,578,540
Less Accumulated Depreciation	21,309,010	1,975,569	799,592	22,484,987
Total Capital Assets, depreciated	44,692,907	6,409,202	8,556	51,093,553
Capital Assets, Net	\$ 47,499,762	\$ 6,409,202	\$ 2,069,595	\$ 51,839,369

Total depreciation expense for the year was \$3,000,065. Depreciation is charged to the following functions in the statement of activities: general government \$26,468, public safety \$315,963, streets and public works \$596,650, culture and recreation \$85,415, airport \$222,858, electric \$505,320, water \$214,021, sewer \$635,827 and civic complex \$397,543.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 5 – 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 and certificates of deposit with maturities of greater than three months.

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, 2011 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.

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	\$ 7,566,892	\$ 0	\$ 0	\$ 7,566,892
Bank Money Market Accounts	833,512	0	0	833,512
Certificates of Deposit	17,000	0	0	17,000
Guaranteed Investment Contracts	0	2,418,204	0	2,418,204
Bond Mutual Funds	0	3,467,866	0	3,467,866
Cash on Hand	0	0	1,114	1,114
Totals	\$ 8,417,404	\$ 5,886,070	\$ 1,114	\$ 14,304,588

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 5 – DEPOSITS AND INVESTMENTS-continued

Category 3 investments are held in trust for the City by UMB Bank and the Bank of New York Mellon. These investments are in large investment pools. The pools have United States securities that collateralize each pool's entire balance, including the amount shown above. These funds are all rated AAAm from Standard & Poor's.

NOTE 6 – 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.

At September 30, 2011 the balance of the restricted assets is \$7,779,878.

NOTE 7 – OPERATING LEASES

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: 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 8 – 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, 2011 is \$3,455,000. Of this amount \$1,533,864 is governmental debt and \$1,921,136 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, 2011 is \$3,996,000.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 8 – CAPITAL LEASES-continued

The fire apparatus lease was entered into on September 20, 2010. Lease payments were scheduled to be due in annual installments including interest of \$105,000.50 beginning September 20, 2011 until final payment on September 20, 2013. This lease was paid in full leaving a balance at September 30, 2011 of \$0.00.

Business-Type Activities:

The City entered into capital leases to finance the purchase of electrical power generation equipment, system expansion and improvements for the wastewater treatment infrastructure, and water system improvements. 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.

Certificates of Participation

The City entered into a capital lease to finance water system and wastewater treatment system capital improvements through a financing arrangement with The Bank of New York Mellon Trust Company. Under the arrangement, the bank issued certificates of participation in the amount of \$5,555,000 on May 3, 2011 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 \$445,000 to \$1,135,000 and begin in May 2012 and continue through May 2021. Interest is payable each November 1st and May 1st at 2.0% to 3.8%. The balance at September 30, 2011 is \$5,555,000. Of this amount \$4,535,000 is allocated to the water fund and \$1,020,000 is allocated to the sewer fund.

Capital Lease Obligations

The electrical 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, 2011 is \$1,693,000.

The wastewater project lease was entered into on September 10, 2009 for \$3,075,000. Lease payments are due in monthly installments including interest ranging from \$83,000 to \$93,000 beginning October 20, 2009 until final payment on August 20, 2012. The balance at September 30, 2011 is \$1,004,000.

Future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011 are as follows:

<u>Year Ended September 30</u>	Governmental	Business-Type	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
2012	\$ 746,011	\$ 2,610,412	\$ 3,356,423
2013	744,966	1,580,911	2,325,877
2014	1,098,206	2,025,090	3,123,296
2015	310,642	1,051,184	1,361,826
2016	312,344	1,693,418	2,005,762
2017-2021	1,557,341	3,639,212	5,196,553
2022-2026	1,559,706	0	1,559,706
2027-2030	910,688	0	910,688
Total Minimum Lease Payments	7,239,904	12,600,227	19,840,131
Less Amount Representing Interest	1,710,039	2,427,090	4,137,129
Present Value of Minimum Lease Payments	\$ 5,529,865	\$ 10,173,137	\$ 15,703,002

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 8 – CAPITAL LEASES-continued

Assets under capital leases are as follows at September 30, 2011:

Land and buildings with a cost of \$9,094,254 and accumulated depreciation of \$1,187,360; Machinery and Equipment with a cost of \$11,653,347 and accumulated depreciation of \$2,045,592; and Infrastructure with a cost of \$9,365,726 and accumulated depreciation of \$666,530. Total cost is \$30,113,326 and total accumulated depreciation of \$3,899,482.

NOTE 9 – LONG-TERM DEBT

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, 2011 was \$3,250,000. The bonds are to be repaid solely through sewer system revenues. The bond covenants require 110% coverage of the debt service for each fiscal year.

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

<u>Year Ended September 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 290,000	\$ 182,618
2013	300,000	167,538
2014	305,000	150,288
2015	315,000	132,750
2016	320,000	114,638
2017-2020	1,360,000	276,193
2021	360,000	20,520
Total	<u>\$ 3,250,000</u>	<u>\$ 1,044,543</u>

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 2011, the City paid back \$199,500. As of September 30, 2011, the balance due to the State was \$2,284,069.

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

<u>Year Ended September 30</u>	<u>Principal</u>
2012	\$ 203,000
2013	210,000
2014	213,500
2015	220,500
2016	224,000
2017-2020	952,000
2021	261,069
Total	<u>\$ 2,284,069</u>

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 9 – LONG-TERM DEBT-continued

Long-term debt activity for the year ended September 30, 2011 was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Governmental Activities:				
General Obligation Bonds	\$ 0	\$ 0	\$ 0	\$ 0
Business-Type Activities:				
Due to The State of MO	2,483,569	0	199,500	2,284,069
Revenue Bonds	3,535,000	0	285,000	3,250,000
Subtotal	6,018,569	0	285,000	5,534,069
Total	\$ 6,018,569	\$ 0	\$ 285,000	\$ 5,534,069

NOTE 10 –CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Balance October 1, 2010	Additions	Deductions	Balance September 30, 2011	Current Portion
Governmental Activities:					
Capital Leases					
Pierce Pumper Tanker	\$ 300,000	\$ 0	\$ (300,000)	\$ 0	\$ 0
Firestation Lease	4,152,000	0	(156,000)	3,996,000	163,000
Certificates of Participation					
Series 2005 - Public Works Improvements	1,902,384	0	(368,520)	1,533,864	381,840
Compensated Absences	80,705	102,860	(80,705)	102,860	102,860
Total Governmental Activities	6,435,089	102,860	(905,225)	5,632,724	647,700
Proprietary Activities:					
Capital Leases					
Electric Generators	2,046,000	0	(353,000)	1,693,000	369,000
East Treatment Plant Expansion	2,060,000	0	(1,056,000)	1,004,000	1,004,000
Certificates of Participation					
Series 2005 - Centene Center	2,382,616	0	(461,480)	1,921,136	478,160
Series 2011 - Radionuclide Project	0	4,535,000	0	4,535,000	365,000
Series 2011 - Treatment Plant UV Project	0	1,020,000	0	1,020,000	80,000
Revenue Bonds					
Series 2000A - West Treatment Plant	3,535,000	0	(285,000)	3,250,000	290,000
Due to State of Missouri	2,483,569	0	(199,500)	2,284,069	203,000
Compensated Absences	41,354	54,555	(41,354)	54,555	54,555
Total Business-Type Activities	\$ 12,548,539	\$ 5,609,555	\$ (2,396,334)	\$ 15,761,760	\$ 2,843,715

NOTE 11 – INTEREST EXPENSE

During the year ended September 30, 2011, \$522,415 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 \$61,514, public safety \$63,340, airport \$236, electric \$31,274, water \$55,998, sewer \$233,021 and civic complex \$77,032. No interest has been capitalized or indirectly charged.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 12 – INTER-FUND TRANSACTIONS

Inter-Fund Receivables and Payables

At September 30, 2011 there was an inter-fund balance owed to the Utility fund from the Sewer fund in the amount of \$668,182. This payable represented a temporary loan until a draw was received from the project account for work on the treatment plant.

Inter-fund Transfers

During the year ended September 30, 2011, 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>
General	Airport	\$ 76,000	Operating Expenses
General	Airport	\$ 52,672	Capital Improvements
General	Civic Complex	\$ 494,000	Funding of Reserves
Capital Projects	Civic Complex	\$ 538,417	COP Payment
General	Sewer	\$ 35,000	Funding of Reserves
Capital Projects	Sewer	\$ 1,076,862	Treatment Plant Debt Payment
Special Allocation	Debt Service	\$ 271,965	Firestation Debt Payment
Capital Projects	Debt Service	\$ 430,933	COP Payment
General	Special Allocation	\$ 205,999	TIF Projects
Capital Projects	Special Allocation	\$ 259,468	TIF Projects

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

NOTE 13 – CONCENTRATION OF REVENUE

Approximately 24% of the sales tax revenue of the City is generated by one customer.

NOTE 14 – SPECIAL ITEMS

A special item is an item that is either unusual in nature or infrequent in occurrence and subject to management control. In the fiscal year ending September 30, 2011, the City Council sold the obsolete fire station to Big River Telephone for renovation and use as an office building. The city received \$149,725 for the facility.

NOTE 15 – 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

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 15 – RISK MANAGEMENT-continued

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 16 – RETIREMENT PLAN

Plan Description

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

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

Funding Policy

The City's full time employees do not contribute to the pension plan. The City is required to contribute at an actuarially determined rate; the current rate is 10.5% (general), 10.0% (police), and 11.9% (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 2011, the City's annual pension cost of \$514,913 was equal to approximately 89% of the required contributions. The required contribution was determined as part of the February 29, 2008 and/or February 28, 2009 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 7.25% per year, compounded annually, (b) projected salary increases of 3.5% 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 75% of the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 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 payrolls on an open basis. The amortization period at February 28, 2009 was 30 years.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 16 – RETIREMENT PLAN-continued

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
6/30/2009	\$ 414,230	100%	\$0
6/30/2010	\$ 448,433	100%	\$0
6/30/2011	\$ 580,511	89%	\$65,598

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
2/29/2009	\$ 8,334,013	\$ 10,260,213	\$ 1,926,200	81%	\$ 4,554,210
2/28/2010	\$ 8,982,035	\$ 10,886,020	\$ 1,903,985	83%	\$ 4,609,368
2/28/2011	\$ 9,977,343	\$ 11,877,606	\$ 1,900,263	84%	\$ 4,709,233

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, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City, MO.

NOTE 17 – TAX INCREMENT FINANCING

Karsch Boulevard-Downtown TIF District

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

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 17 – TAX INCREMENT FINANCING-continued

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, 2011 no TIF bonds had been issued by the City of Farmington for this project.

Highway 67 TIF District

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 and CID obligations will not exceed \$42,000,000 to which will be added accrued and capitalized interest, debt service reserve and issuance costs. The redevelopment projects and the TIF obligations were authorized for a 23-year period following their adoption. This plan anticipates funding redevelopment projects on a pay as you go method. The City, however, may decide to fund several projects up front, and therefore, the plan estimates an annual interest rate of 6.25% on the maximum amount of potential bonds to be issued.

It is the intent of this redevelopment plan to declare an amount equal to 100% of all PILOTS as surplus on one redevelopment project and 60% on the other on an annual basis and pass through that amount to the individual taxing entities. This plan anticipates a total of \$390,961 of PILOTS. The actual PILOTS over the 23 year projected life of the TIF District will depend on the amount of actual development that occurs and may be more than the projected \$390,961, but will be limited to the amount of actual PILOTS collected. 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.

On December 3, 2010, \$3,992,507 in Tax-Exempt Tax Increment and Community Improvement Revenue Notes were issued by the City of Farmington. These were issued in conjunction with Taxable Tax Increment Revenue Notes with an aggregate principal amount not to exceed \$8,242,380. The City's liability is limited to 40% of the Economic Activity Tax Revenues generated by the Maple Valley Plaza Project and attributable to the project's development parcel.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 17 – TAX INCREMENT FINANCING-continued

In April 2011 the City terminated one of two redevelopment agreements associated with the Highway 67 TIF District for failing to initiate development pursuant to the terms of the agreement.

NOTE 18– 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 19 – JOINT VENTURE

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

NOTE 20 – SUBSEQUENT EVENTS

Purchase of Real Estate

The City has approved and entered into a contract for the purchase of real estate adjacent to the Farmington Regional Airport. The real estate was in foreclosure and was purchased for \$59,000 plus closing fees. The property appraised at \$68,500. The purchase will be funded 90% from aviation grant proceeds and 10% from general revenues.

Community Improvement District

On February 8, 2012 the City Council approved a petition from GPMVLC to establish a Community Improvement District at the site of the property formerly the location of Value City. On February 27, 2012 the City Council approved an intergovernmental agreement with the CID to provide public incentives not to exceed \$1,000,000 for the developer to locate a national brand retailer to the site. It is expected that the primary tenant will occupy at least 50,000 square feet of the building and will engage in retail sales of at least \$8,000,000 annually. The cooperative agreement provides for the capture of 67.5% of the one cent general sales tax and one-half cent capital improvement sales tax generated by the site. The agreement further limits the return on investment of the developer to 5% of initial investment, after which the \$1,000,000 incentive is reduced proportionately to the margin above 5%.

CITY OF FARMINGTON, MISSOURI

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 21 – 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, 2011, the City had deposits of \$8,400,240 at this financial institution. Additionally, the Mayor rents a hangar at Farmington Regional Airport. The rental is at the standard rate of \$50 per month offered to the general public and is paid on a quarterly basis.

NOTE 22 – NET ASSETS RESTRICTED BY ENABLING LEGISLATION

The amount of net assets restricted by enabling legislation at September 30, 2011 is as follows:

<u>Fund</u>	<u>Net Assets at September 30, 2011</u>
Capital Projects	\$ 1,100,055
Special Allocation	775,678
Total	<u>\$ 1,875,733</u>

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

Year Ended September 30, 2011

	Original Budget	Final Appropriated Budget	Actual	Positive (Negative) Variance
<u>REVENUES</u>				
Sales Tax	\$ 3,265,000	\$ 3,245,000	\$ 3,236,467	\$ (8,533)
Real and Personal Property Tax	769,000	769,000	781,728	12,728
Grants & Donations	255,500	255,500	317,969	62,469
Charges for Services	610,300	573,300	486,329	(86,971)
Motor Fuel and Vehicle Tax	510,000	510,000	532,123	22,123
Utility, Gross Receipts, and Other Taxes	506,600	660,600	754,008	93,408
Interest Income	5,000	4,000	3,148	(852)
Administrative Pilot Payment	1,112,000	1,107,500	1,106,864	(636)
Gain/Loss on Asset	0	170,000	202,341	32,341
Other	3,600	3,600	49,614	46,014
Total Revenue	7,037,000	7,298,500	7,470,591	172,091
<u>EXPENDITURES</u>				
General Government				
Administration	1,351,000	1,372,100	1,176,329	195,771
Public Safety				
Police	2,105,800	2,118,300	2,162,408	(44,108)
Municipal Court	90,300	97,300	89,807	7,493
Fire	1,017,400	951,900	814,622	137,278
Streets and Public Works				
Street	764,600	768,100	767,944	156
Public Works	353,600	389,100	409,867	(20,767)
Maintenance	379,700	393,700	442,635	(48,935)
Culture and Recreation				
Park	614,600	612,600	600,524	12,076
Library	287,700	289,200	286,759	2,441
Capital Outlay	442,900	915,400	848,647	66,753
Debt Service-Principal	105,000	300,000	300,000	0
Total Expenses	7,512,600	8,207,700	7,899,542	308,158
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(475,600)	(909,200)	(428,951)	480,249
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	0	30,000	0	(30,000)
Transfers Out	67,200	(659,500)	(863,671)	(204,171)
Total Other Financing Sources(Uses)	67,200	(629,500)	(863,671)	(234,171)
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ (408,400)</u>	<u>\$ (1,538,700)</u>	(1,292,622)	<u>\$ 246,078</u>
FUND BALANCE, OCTOBER 1, 2010			3,776,340	
FUND BALANCE, SEPTEMBER 30, 2011			<u>\$ 2,483,718</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
DEBT SERVICE FUND

Year Ended September 30, 2011

	<u>Original Budget</u>	<u>Final Appropriated Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
REVENUES				
Interest Income	\$ 500	\$ 500	\$ 48	\$ (452)
Total Revenue	500	500	48	(452)
EXPENDITURES				
Debt Service Interest and Fees	223,700	223,700	189,226	34,474
Debt Service Principal	524,600	524,600	524,520	80
Total Expenditures	748,300	748,300	713,746	34,554
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(747,800)	(747,800)	(713,698)	34,102
OTHER FINANCING SOURCES(USES)				
Transfer In	747,800	747,800	702,898	(44,902)
Transfer Out	0	0	0	0
Total Other Financing Sources (Uses)	747,800	747,800	702,898	(44,902)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	(10,800)	\$ (10,800)
FUND BALANCE, OCTOBER 1, 2010			404,203	
FUND BALANCE, SEPTEMBER 30, 2011			\$ 393,403	

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, 2011

	Original Budget	Final Appropriated Budget	Actual	Positive (Negative) Variance
REVENUES				
Sales Tax	\$ 3,265,000	\$ 3,245,000	\$ 3,135,638	\$ (109,362)
Interest Income	16,300	16,300	57,143	40,843
Grant Revenue	0	0	27,920	27,920
Total Revenue	3,281,300	3,261,300	3,220,701	(40,599)
EXPENDITURES				
Capital Expenditures	4,310,000	625,000	571,040	53,960
Total Expenditures	4,310,000	625,000	571,040	53,960
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,028,700)	2,636,300	2,649,661	13,361
OTHER FINANCING SOURCES(USES)				
Lease Proceeds	3,725,000	0	0	0
Transfers In	0	70,000	0	(70,000)
Transfers Out	(2,696,300)	(2,706,300)	(2,305,679)	400,621
Total Other Financing Sources(Uses)	1,028,700	(2,636,300)	(2,305,679)	330,621
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	343,982	\$ 343,982
FUND BALANCE, OCTOBER 1, 2010			756,074	
FUND BALANCE, SEPTEMBER 30, 2011			\$ 1,100,056	

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, 2011

	Original Budget	Final Appropriated Budget	Actual	Positive (Negative) Variance
<u>REVENUES</u>				
TIF Proceeds From Other Governments	\$ 532,000	\$ 532,000	\$ 457,315	\$ (74,685)
Interest Income	1,100	1,100	579	(521)
Other Income	0	0	0	0
Total Revenue	533,100	533,100	457,894	(75,206)
<u>EXPENDITURES</u>				
General Government	269,000	321,700	227,814	93,886
Capital Expenditures	65,000	0	125,007	(125,007)
Total Expenditures	334,000	321,700	352,821	(31,121)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	199,100	211,400	105,073	(106,327)
OTHER FINANCING SOURCES(USES)				
Transfers In	405,000	555,000	465,466	(89,534)
Transfers Out	(459,300)	(409,300)	(271,965)	137,335
Total Other Financing Sources(Uses)	(54,300)	145,700	193,501	47,801
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 144,800	\$ 357,100	298,574	\$ (58,526)
FUND BALANCE, OCTOBER 1, 2010			477,103	
FUND BALANCE, SEPTEMBER 30, 2011			\$ 775,677	

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, 2011

	Original Budget	Final Appropriated Budget	Actual	Positive (Negative) Variance
<u>REVENUES</u>				
Transient Tax Income	\$ 179,800	\$ 179,800	\$ 186,075	\$ 6,275
Interest Income	0	0	46	46
Total Revenue	179,800	179,800	186,121	6,321
<u>EXPENDITURES</u>				
General Government	179,800	221,800	227,815	(6,015)
Total Expenditures	179,800	221,800	227,815	(6,015)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	0	0	(41,694)	306
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	\$ 0	\$ 0	(41,694)	\$ 306
FUND BALANCE, OCTOBER 1, 2010			41,694	
FUND BALANCE, SEPTEMBER 30, 2011			\$ 0	

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, 2011

Summary of Audit Results

1. The auditors' report expressed an unqualified opinion on the financial statements of the City of Farmington, Missouri.
2. Two significant deficiencies 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. One of these deficiencies is considered a material weakness.
3. No instance 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. One significant deficiency in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133. This deficiency is considered a material weakness.
5. The auditors' report on compliance for the major funds programs for the City of Farmington, Missouri expresses an unqualified opinion.
6. The programs tested as a major program were the Department of Transportation–Air Entitlement Funds, CFDA #20.106, and Department of Justice-Edward Byrne Memorial Justice Assistance Grant Program, CFDA #16.738.
7. The threshold for distinguishing between type A and type B programs was \$300,000.
8. The City of Farmington, Missouri was not determined to be a low-risk auditee.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FEDERAL AWARDS

For the Year Ended September 30, 2011

<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	\$ 7,548
Pass Through Missouri Department of Transportation Air Entitlement Funds	20.106	426,473
Total Department of Transportation		434,021
Department of Justice		
Pass Through Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program-ARRA	16.803	22,920
Edward Byrne Memorial Justice Assistance Grant Program	16.738	97,326
Total Department of Justice		120,246
Department of Health and Human Services		
Pass Through Southeast Missouri Area Agency on Aging Special Programs for the Aging Title III, Part C Nutrition Services	93.045	45,918
Nutrition Services Incentive Program	93.053	24,466
Total Department of Health and Human Services		70,384
Department of Homeland Security		
Disaster Grant-Public Assistance	97.036	9,172
Assistance to Firefighters Grant	97.044	114,000
Total Department of Homeland Security		123,172
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 747,823

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, 2011.

NOTE C - FEDERAL AWARDS PASSED ON TO SUBRECIPIENTS

\$111,345 of federal awards were passed on to a subrecipient.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2011

FINDINGS-FINANCIAL STATEMENT AUDIT

2011-01 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 control.

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 purchased and implemented software that will provide the necessary segregation of duties and controls to address the above finding.

2011-02 Controls over Inventory

Condition: The City does not have adequate controls over the utility department inventory. Inventory is not maintained using a perpetual inventory system. Additionally, the City's inventory is not subject to general ledger control.

Criteria: Controls over utility department inventory should be strengthened and the inventory should be subject to general ledger reconciliation.

Effect: Because the lack of internal controls, the risk of fraud and theft is increased.

Recommendation: We recommend that the City implement a perpetual inventory system that is reconciled periodically to the general ledger system and physical counts.

Response: The City currently performs spot checks of the inventory throughout the year with a physical count at year end. These procedures will be continued. Additionally, the City has purchased the inventory control module that ties with the general ledger software and is working with the software programmers to schedule the implementation.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2011

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

Significant Deficiency (Also Material Weakness)

Department of Education

2011-03 Edward Byrne Memorial Justice Assistance Grant Program

Condition: Internal Controls have not been established and implemented to provide reasonable assurance that compliance requirements are being followed by the sub-recipient of pass through funding.

Criteria: Internal controls should be in place to provide reasonable assurance that compliance requirements are being followed by sub- recipients of pass through funds.

Effect: Because the lack of internal controls, the risk of noncompliance is increased.

Recommendation: We recommend that the City implement internal controls to provide reasonable assurance that compliance requirements are being followed by the sub-recipients of federal funds.

No findings or questioned costs were detected as a result of the lack of internal controls. However, the lack of controls creates the potential for error or fraud to occur and not be detected and corrected in a timely manner.

Response:

The City concurs with this finding. As of publication of this report, the City has implemented additional controls related to the review of sub-recipient expenditures.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2011

PRIOR FINDINGS AND QUESTIONED COSTS

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 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.

Status of Finding: The City did not obtain adequate segregation of duties during the year ended September 30, 2011. However, subsequent to year-end, the City has purchased and implemented software that will provide the necessary segregation of duties and controls to address the above finding.