

CITY OF FARMINGTON, MISSOURI

FINANCIAL STATEMENTS

September 30, 2012

CITY OF FARMINGTON, MISSOURI

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INDEPENDENT AUDITORS' REPORT

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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*; and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013, 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 22 and 56 through 60 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 as a whole. 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 schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



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Certified Public Accountants

Farmington, Missouri
March 12, 2013



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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, 2012, which collectively comprise the City of Farmington, Missouri's basic financial statements and have issued our report thereon dated March 12, 2013. 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

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

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


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the paragraph above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting., 2012-1 and 2012-2. 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.

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
Certified Public Accountants

Farmington, Missouri
March 12, 2013

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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, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Farmington, Missouri's internal control over compliance.

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

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

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



Thurman, Shinn & Company
Certified Public Accountants

Farmington, Missouri
March 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Farmington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2012. 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

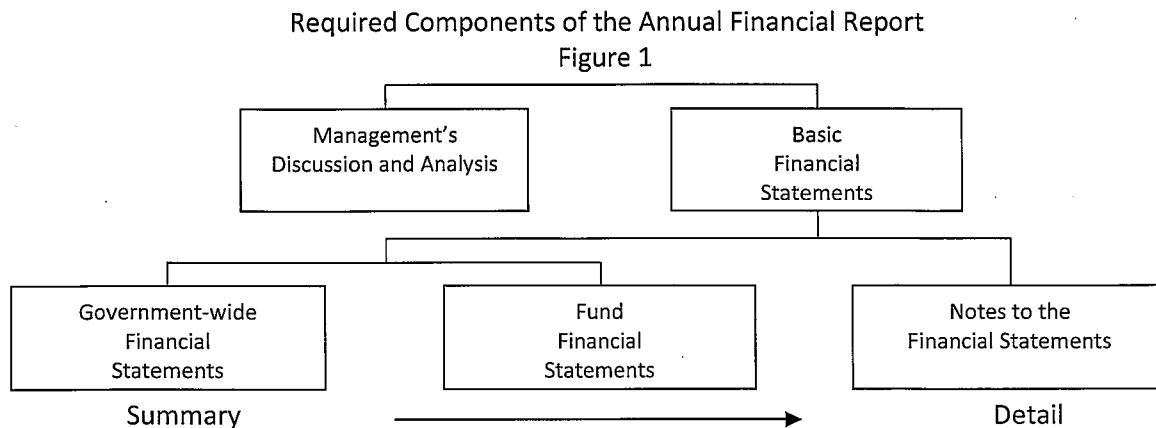
- The City of Farmington had a positive net position at the close of the fiscal year in the amount of \$76,004,658 (*net position = assets + deferred outflows - liabilities - deferred inflows*).
- The adoption of a new accounting standard led to a change in accounting principle. The change required that debt issuance costs previously recorded as assets and amortized over the life of the issue now be fully expensed. This resulted in a prior period adjustment which decreased the business-type activities net position as of October 1, 2011 by \$115,782.
- The government's total change in net position due to activities during the fiscal year is an increase of \$2,870,013. This increase is representative of a \$1,112,771 increase in governmental activities and a \$1,757,242 increase in position in business-type activities.
- As of the close of the fiscal year, the City of Farmington's governmental funds reported combined ending fund balances of \$5,212,242 with a net increase of \$459,388 in fund balance. Approximately 49% of the governmental fund balances, or \$2,482,560, is available for spending at the government's discretion (*unrestricted fund balance*). Of this amount, only \$2,402,418 is considered unassigned. The remaining \$80,142 is committed or assigned by City Council and management.
- At the end of the fiscal year, the governmental funds full unreserved balance of \$2,482,560 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 decreased by \$4,658,000 (22%) during the fiscal year. This decrease was the effect of a reduction in principal of \$3,334,000 in current amounts due plus an additional prepayment of principal in the amount of \$1,324,000 for an early pay-off of the electric generators debt.
- The payment in lieu of taxes from the electric, water, and sewer departments was set at 5% resulting in a total payment amount of \$1,115,000. 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 32% decrease over the prior fiscal year resulting in total grants and contributions of \$703,471. The decrease is due to a decrease in the amount of transportation funds received for expansion at the airport as well as a decrease in public safety capital grants.

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

Management Discussion and Analysis City of Farmington

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.



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 23 to 24.

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 25 to 30.

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 budget to actual comparisons for the governmental funds. The Notes can be found on pages 31 to 55 with the Required Supplemental Information on pages 56 to 60.

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 Position* and *the Statement of Activities*. The Statement of Net Position presents all the assets, deferred outflows, liabilities, and deferred inflows of the City, the net of which is the City's net position. An evaluation of the measure of net position 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 position 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

Management Discussion and Analysis

City of Farmington

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 Position 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 Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position. 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.

Management Discussion and Analysis
City of Farmington

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 position for September 30, 2012 and 2011.

City of Farmington's Statement of Net Position
 Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011 - Restated	2012	2011 - Restated
Current Assets	\$ 4,072,359	\$ 3,582,889	\$ 12,266,886	\$ 8,716,634	\$ 16,339,245	\$ 12,299,523
Other Assets	2,264,518	1,719,948	4,068,497	6,059,930	6,333,015	7,779,878
Capital assets	25,615,613	25,507,070	49,222,560	51,839,368	74,838,173	77,346,438
Total assets	31,952,490	30,809,907	65,557,943	66,615,932	97,510,433	97,425,839
Deferred Outflows	0	0	0	0	0	0
Current liabilities	1,681,643	1,094,823	3,572,799	4,934,667	5,254,442	6,029,490
Long-term liabilities	4,424,084	4,985,024	10,516,029	13,276,680	14,940,113	18,261,704
Total liabilities	6,105,727	6,079,847	14,088,828	18,211,347	20,194,555	24,291,194
Deferred Inflows	3,932	0	1,307,288	0	1,311,220	0
Net Position:						
Net investment in capital assets	20,630,589	19,977,206	39,709,584	40,412,281	60,340,173	60,389,487
Restricted	2,729,682	2,303,876	2,103,085	720,655	4,832,767	3,024,531
Unrestricted	2,482,560	2,448,978	8,349,158	7,271,649	10,831,718	9,720,627
Total net position	\$ 25,842,831	\$ 24,730,060	\$ 50,161,827	\$ 48,404,585	\$ 76,004,658	\$ 73,134,645

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 position reveals the following:

- At September 30, 2012, the assets of the City of Farmington exceeded liabilities by \$76,004,658. This equates to a 4% (\$2,870,013) increase in net assets as compared to September 30, 2011. This increase

Management Discussion and Analysis

City of Farmington

consisted of \$1,112,771 (39%) from governmental activities and \$1,757,242 (61%) from business-type activities.

- Comparatively, the City's net investment in capital assets is approximately 79% of the total net position. 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 decreased by \$49,314. Governmental funds investment in capital assets increased by \$653,383 primarily from the acquisition of vehicles, equipment and infrastructure improvements. The proprietary funds realized a decrease of \$702,697. This decrease is representative of the net effective of an increase as a result of acquisition of vehicles, equipment and infrastructure improvements and a decrease from the sale of six generators, which were sold in lieu of converting the generators to meet the Compression Ignition Reciprocating Internal Combustion Engines emission reduction standards established by the Environmental Protection Agency.
- An additional portion of the City's net position \$4,832,767, or 6%, represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of \$10,831,718 is unrestricted. The amount of unrestricted net position in relation to total net position is 14% compared to 13% in the prior year. Of the unrestricted net position, approximately 23% is attributable to governmental type activities and 77% is attributable to business type activities.

Figure 3 shown on the following page reflects the revenues and expenses for the City's activities for the years ended September 30, 2012 and September 30, 2011. A review of the statement of activities reflects the following changes.

Government Wide

- Total revenues had minimal change with an increase of only \$13,446. However, when the total revenues are adjusted to remove gain and loss on disposal of assets and prior year special or extraordinary items, a \$769,267 or 2% increase is realized. This increase is primarily due to increases in the water and sewer revenues.
- Program revenues net of grants and contributions increased \$842,664, or 3%, for 2012. This increase consists of a \$189,960 increase in governmental-activities charges for goods and services and a \$652,704 increase in business-type activities charges for goods and services.
- General revenues net of gain or loss on assets and special items realized an overall increase of \$215,877 or 2%. The majority of which was attributed to governmental activities.
- Expenses increased a total of \$658,542 or 2%. Governmental activities accounted for an \$86,202 decrease in expenses while business-type activities had a \$744,744 increase. A large portion of the increase in the business-type activities expenses (\$509,595) was due to operating costs for the

Management Discussion and Analysis
City of Farmington

radionuclide treatment systems which were fully operational. These costs will be an ongoing operational cost for the City.

City of Farmington's Statement of Activities
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for goods and services	\$ 725,903	\$ 535,943	\$ 0	\$ 0	\$ 725,903	\$ 535,943
Electric Charges			18,790,495	19,343,552	18,790,495	19,343,552
Water Charges			2,568,814	1,784,785	2,568,814	1,784,785
Sewer Charges			2,234,229	1,900,574	2,234,229	1,900,574
Airport Charges			324,074	241,703	324,074	241,703
Civic Complex			1,382,046	1,376,340	1,382,046	1,376,340
Operating grants and contributions	261,397	203,969	263,578	238,575	524,975	442,544
Capital grants and contributions	0	141,920	178,496	444,281	178,496	586,201
General revenues:						
Sales taxes	6,494,255	6,372,105			6,494,255	6,372,105
Property taxes	798,999	781,728			798,999	781,728
Motor Fuel & Vehicle Tax	571,247	532,123			571,247	532,123
Gross Receipts Tax	550,947	592,223			550,947	592,223
Transient Guest Tax	190,516	186,075			190,516	186,075
Other taxes	164,930	161,785			164,930	161,785
Tax Increment Finance Proceeds	431,866	457,315			431,866	457,315
Interest Income	77,809	60,963	310,511	243,022	388,320	303,985
Administrative Pilot Payment	1,155,000	1,106,864			1,155,000	1,106,864
Other	0	0	0	0	0	0
Gain/(Loss) on Disposal of Assets	7,000	52,616	(569,036)	(8,556)	(562,036)	44,060
Special or Extraordinary Items	0	149,725	0	0	0	149,725
Total revenues	11,429,869	11,335,354	25,483,207	25,564,276	36,913,076	36,899,630
Expenses:						
General government	1,790,281	1,658,425			1,790,281	1,658,425
Public safety	3,434,209	3,617,343			3,434,209	3,617,343
Streets and Public Works	2,195,153	2,298,787			2,195,153	2,298,787
Cultural and recreation	1,041,408	972,698			1,041,408	972,698
Electric			18,277,418	18,395,046	18,277,418	18,395,046
Water			2,256,488	1,446,867	2,256,488	1,446,867
Sewer			2,423,896	2,348,172	2,423,896	2,348,172
Airport			555,941	460,906	555,941	460,906
Civic Complex			2,068,269	2,186,277	2,068,269	2,186,277
Total expenses	8,461,051	8,547,253	25,582,012	24,837,268	34,043,063	33,384,521
Change in net position before transfers	2,968,818	2,788,101	(98,805)	727,008	2,870,013	3,515,109
Transfers	(1,856,047)	(2,272,951)	1,856,047	2,272,951	0	0
Change in net position	1,112,771	515,150	1,757,242	2,999,959	2,870,013	3,515,109
Net Position, September 30	24,730,060	24,214,910	48,520,367	45,520,408	73,250,427	69,735,318
Prior Period Adjustment	0	0	(115,782)	0	(115,782)	0
Restated Net Position, October 1	24,730,060	24,214,910	48,404,585	45,520,408	73,134,645	69,735,318
Net Position, September 30	\$ 25,842,831	\$ 24,730,060	\$ 50,161,827	\$ 48,520,367	\$ 76,004,658	\$ 73,250,427

Management Discussion and Analysis

City of Farmington

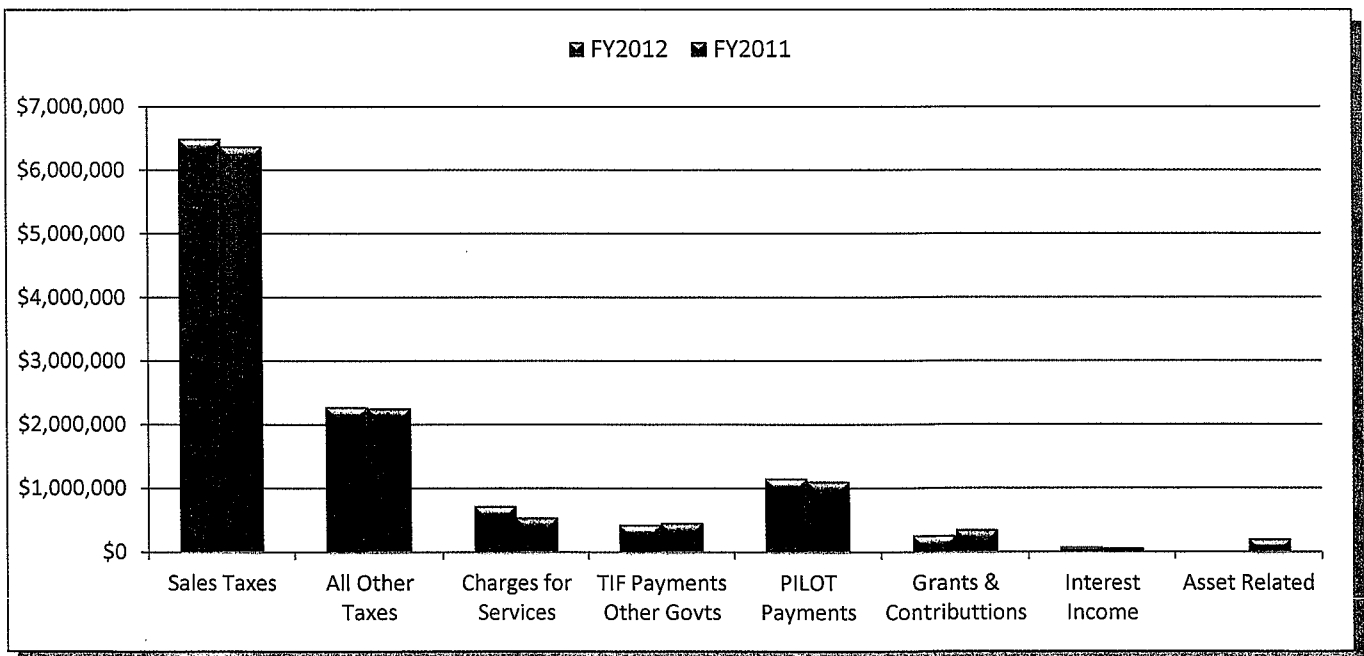
Governmental Activities

Governmental activities increased the City's net position by \$2,968,818 before transfers. Key elements of this change are as follows:

Revenue

- Overall tax revenues remained substantially the same with a slight increase of 1.7% from the prior year amount. This change in taxes consisted of:
 - A 1.9% increase (\$122,150) was seen in sales tax compared to a 0.4% decrease in the prior year.
 - A 2.2% increase in property taxes (\$17,271)
 - A 7.4% increase in motor fuel and vehicle taxes (\$39,124)
 - A 2.4% decrease in transient guest tax receipts (\$4,441)
 - A 7% decrease in gross receipts taxes (\$41,276)
 - A 1.9% increase in other taxes combined (\$3,145)
- Administrative pilot payments increased by \$48,136 or 4.3%. These are payments made from the Utility and Sewer Funds to the General Fund based on a percentage of revenue. The amount transferred is 5% of defined revenue.
- Contributions and operating grants in the amount of \$246,070 in the public safety area and \$15,327 in the cultural and recreation areas were utilized for operating costs.
- Governmental activities received no capital grants during the fiscal year.

General Revenues by Source
Figure 4



Management Discussion and Analysis

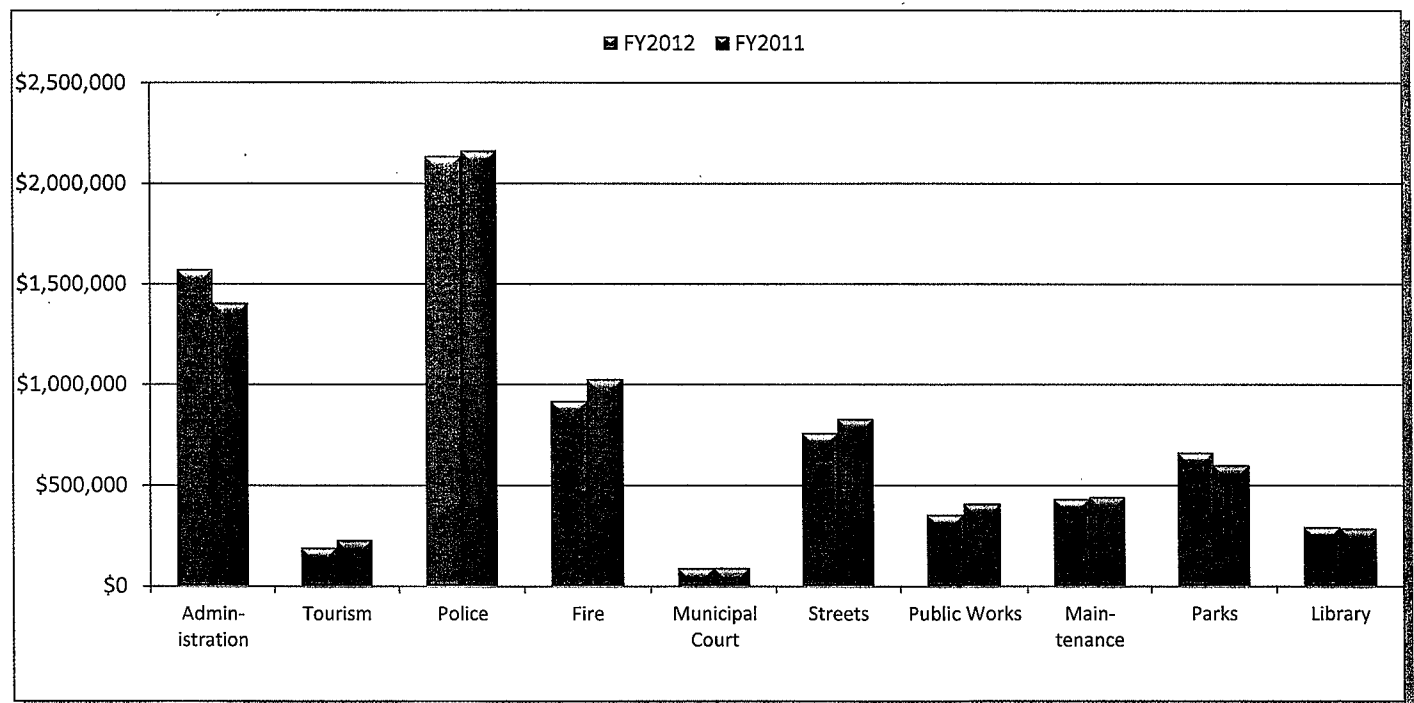
City of Farmington

Expenses

- Overall there was little change (\$17,262 or 0.2%) in governmental activities operating expenses (debt service principal and or capital outlay not included). Changes consisted of:
 - A 8% increase in general government expenses (\$130,292)
 - A 1.6% decrease in public safety expenses (\$51,165)
 - A 7.9% decrease in streets and public works (\$132,426)
 - A 8% increase in culture and recreation (\$70,561)
- Substantial decreases were seen in capital outlay and debt service principal, 25% and 34% respectively. These decreases were due to the completion of less capital projects and the prior year pay-off of debt.

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 decreased the City of Farmington's net position by \$98,805 before transfers. Key elements of this change are as follows:

- Net loss in the Civic Complex Fund of \$422,293 before transfers
- Net loss in the Airport Fund of \$77,094 before transfers.
- Net income in the Utility Fund of \$401,234 before transfers.
- Net loss in the Sewer Fund of \$652 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'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. At the end of the current fiscal year, the unassigned General Fund balance is \$2,402,418. 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 33% 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 FY2013 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, 2012 is \$407,620, 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, 2012 is \$1,265,186. This consists of the following balances: \$383,142 restricted for debt service, \$882,044 restricted for capital projects and \$35,695 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 tax revenues received from tax increment financing districts. The City currently has two distinct districts accounted for in this fund. The fund balance at September 30, 2012 is \$1,007,958, of this balance \$829,008 is restricted for the Karsch-Downtown TIF District and \$178,950 is restricted for the Highway 67 TIF District. No minimum balance policy exists for this fund.

Transient Guest Tax Fund

The Transient Guest 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, 2012, the balance of the Transient Guest 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 position of the proprietary funds equaled \$8,349,158 at

Management Discussion and Analysis

City of Farmington

September 30, 2012, a 13% increase over September 30, 2011.

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 net position at September 30, 2012 is \$6,807,113. The amount that is unrestricted is \$100,070. This equates to 18% of operating expenses.

Utility Fund

The Utility Fund accounts for the activities of the electric utility and water utility. The Utility Fund net position at September 30, 2012 is \$18,898,776. Of this amount, \$7,813,428 is unrestricted, a \$931,507 or 13.5% increase over the prior year and 38% of operating expenditures (capital outlay and debt principal payments not included).

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 position at September 30, 2012 is \$14,176,018. There are no unrestricted net assets in the Sewer Fund. All revenues generated are restricted for sewer use. The balance of \$1,156,323 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 a net position of \$10,279,920 at September 30, 2012, of which \$453,660 is unrestricted. This equates to 22% of operating expenses.

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:

- Addition of park green space impact fee based upon developer exercising that option in lieu of constructing recreational facilities,
- Modification to show incremental economic activity taxes related to the tax increment finance districts as transfers rather than income and expenses,
- Increase in capital outlay for city hall renovations, street facility improvements, and park system improvements,
- Increase in airport capital grant revenue and airport capital costs based on anticipation of the completion of additional expansion efforts,
- A decrease in electric revenue and power costs based on a mild winter and projected costs,
- A loss on sale of assets for the sale of six generators,

Management Discussion and Analysis

City of Farmington

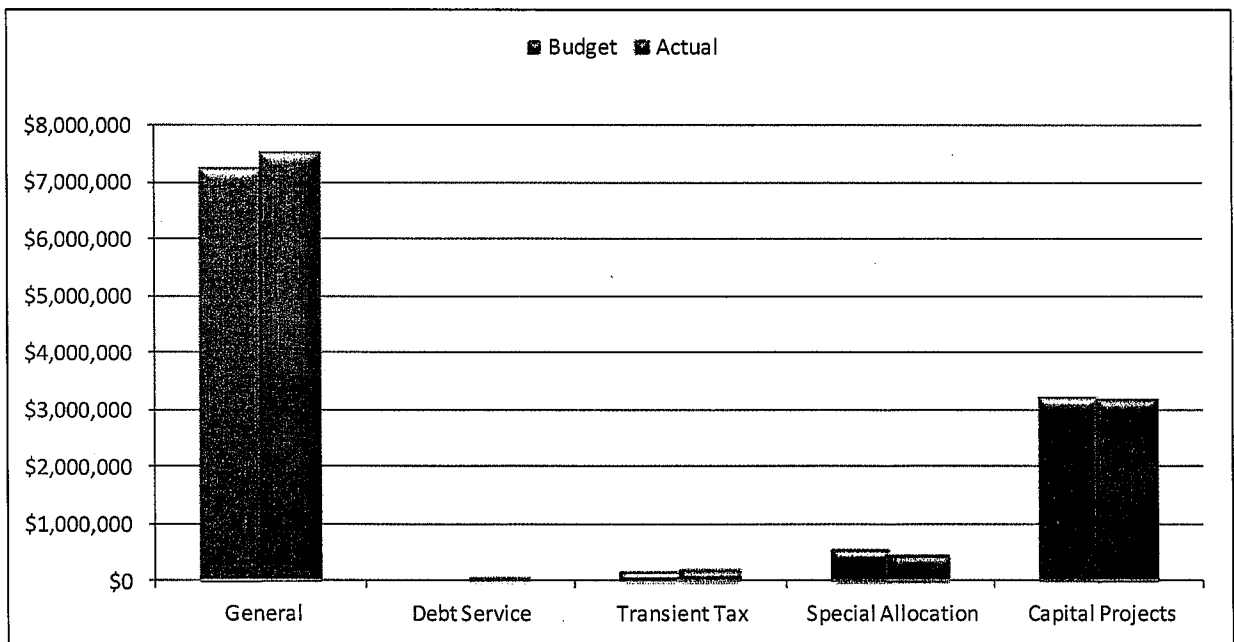
- An increase in debt principal payments to account for the accelerated payoff of the generator debt,
- A net reduction in utility fund capital cost to remove the retrofit of the sold generators, add the cost of renovation of facilities, and reduce water capital costs for capital projects completed early.
- An increase in sewer capital expenses for treatment plant improvements.

The second budget amendment included the addition of funds for engineering and system maintenance costs in the Sewer Fund.

PERFORMANCE TO BUDGET – GOVERNMENTAL FUNDS

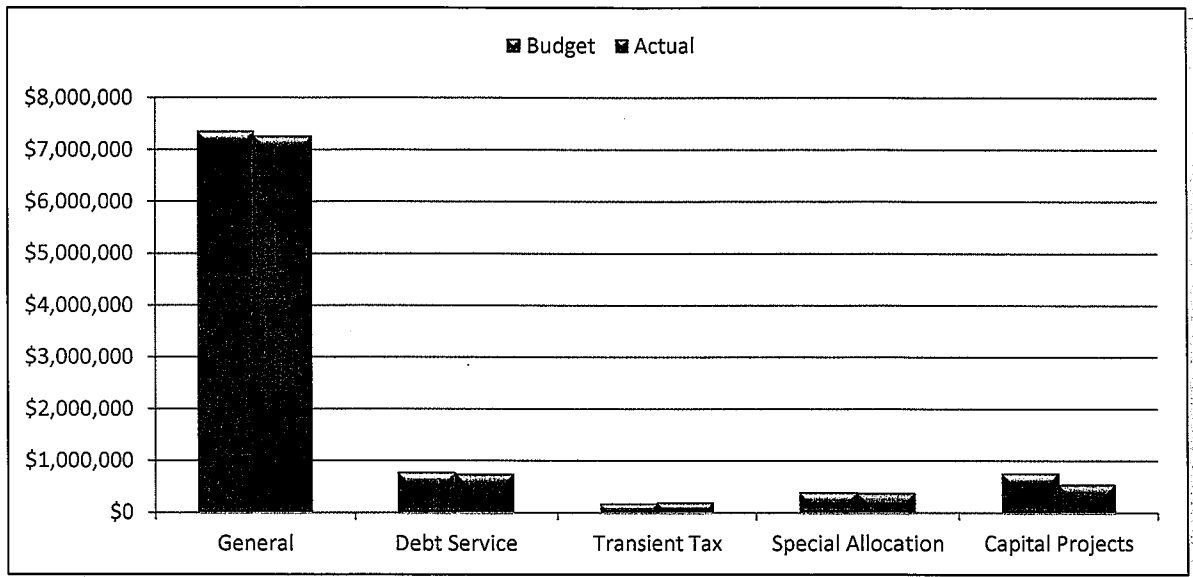
Actual revenues in the Governmental Funds as a whole were \$215,369 or approximately 1.9% above budget. The General Fund revenues were \$264,043 above budget. This increase was spread throughout most revenue categories in the general fund and is primarily attributed to an upswing in the economy. The Transient Tax Fund tax revenues were \$15,541 above the budgeted amount. Revenues in the Capital Projects Fund were \$36,392 below budget largely due to a variance in estimated receipts as one of two capital sales tax ended. The Special Allocation Fund had a variance of \$99,152 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 \$347,316 or 3.7% less than budgeted. This variance was realized due to the addition of a capital project which took longer than anticipated due to weather and geological delays, thus leading to a delayed completion of other capital. Figure 7, shown on the following page, depicts the governmental funds budget to actual expenditure in graph form.

Governmental Fund Expenses - Budget to Actual
Figure 7



CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, totals \$58,259,104 (net of accumulated depreciation and related debt). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. This is a 3.4% decrease over the prior year primarily due to disposal of generators in the Utility Fund. Figure 8 depicts the capital assets held by the City net of depreciation (related debt not considered).

City of Farmington's Capital Assets
Figure 8

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and Land Improvements	\$ 2,412,846	\$ 2,412,846	\$ 745,816	\$ 745,816	\$ 3,158,662	\$ 3,158,662
Buildings and system	6,868,787	6,799,278	18,026,023	17,550,804	24,894,810	24,350,082
Equipment, Furniture, and						
Vehicles	5,179,125	4,984,811	2,663,851	2,634,033	7,842,976	7,618,844
Infrastructure	23,864,964	23,262,086	51,289,363	53,393,703	75,154,327	76,655,789
Construction in progress	280,737	33,035	274,634	0	555,371	33,035
Total	38,606,459	37,492,056	72,999,687	74,324,356	111,606,146	111,816,412
Less Accumulated Depreciation	12,990,846	11,984,986	23,777,127	22,484,987	36,767,973	34,469,973
Total	\$ 25,615,613	\$ 25,507,070	\$ 49,222,560	\$ 51,839,369	\$ 74,838,173	\$ 77,346,439

Management Discussion and Analysis
City of Farmington

Major capital asset transactions during the year include the following:

Governmental Funds

A total of \$1,156,580 in assets was added to the governmental funds during the year ended September 30, 2012. These assets consist of:

- General government related asset additions of \$25,448 for office renovations at City Hall.
- Public safety asset additions of \$141,502 for police vehicles, a fire vehicle, a firefighting foam trailer, and public safety narrowband radio system.
- Street and public works asset additions totaling \$688,867 which consist of \$55,084 for facility improvements, \$89,510 for equipment and vehicles, and \$544,273 for streets, sidewalks, curbs and guttering.
- Cultural and recreation asset additions of \$300,763 which consist of facility expansions, facility improvements at JC Park, facility improvements at the sports complex, a new disc golf course at Engler Park, and equipment.
- Public safety vehicles with an original cost of \$42,178 were disposed. The vehicles were fully depreciated at the time of disposal.

Proprietary Funds

A total of \$1,392,332 in assets was added to the governmental funds during the year ended September 30, 2012. These assets consist of:

- Completion of \$175,728 in improvements at the airport including land acquisition and work on the runway/taxiway.
- Facility improvements at the Civic Center in the amount of \$103,396.
- Electric vehicles in the amount of \$29,818 and an in progress GIS mapping system in the amount of \$44,553 were added to the Utility Fund.
- Facilities expansion and renovation in the amount of \$471,620 in the Utility Fund and of \$47,968 in the Sewer Fund.
- Water system improvements of \$318,477 primarily related to the radionuclide treatment system and an irrigation well for water conservation.
- Sewer system asset additions of \$200,772 for main extensions and equipment to help alleviate ultraviolet degradation of the media at the East Wastewater Treatment Plant.
- Six generators were disposed of out of the Utility Fund. These assets had a cost of \$2,717,000 and accumulated depreciation of \$913,214.

Additional information on the City's capital assets can be found in Note 5 to the Basic Financial Statements.

LONG-TERM DEBT

The City of Farmington's total debt decreased by \$4,658,000 (22%) during the fiscal year. The City made the final payment on the East Treatment Plant Expansion capital lease and elected to pay off the full balance on the generators capital lease.

Management Discussion and Analysis
City of Farmington

An overview of the debt held by the City is shown in Figure 9 on the following page.

Revenue Bonds, Certificates of Participation and Capital Leases
 Figure 9

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds	\$ 0	\$ 0	\$ 2,960,000	\$ 3,250,000	\$ 2,960,000	\$ 3,250,000
Due to State of Missouri	0	0	2,081,069	2,284,069	2,081,069	2,284,069
Certificates of Participation	1,152,024	1,533,864	6,552,976	7,476,136	7,705,000	9,010,000
Capital Leases	3,833,000	3,996,000	0	2,697,000	3,833,000	6,693,000
Total	\$ 4,985,024	\$ 5,529,864	\$ 11,594,045	\$ 15,707,205	\$ 16,579,069	\$ 21,237,069

The debt currently held includes:

- Revenue Bonds for sewer system construction in the amount of \$2,960,000 are to be repaid solely through sewer system revenues with the final payment due July 2021.
- At the time the sewer revenue bonds were issued, 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 \$2,081,069.
- A balance of \$2,595,000 remains on a capital improvement certificates of participation issue (series 2005) payable from available revenues in the fiscal year. The governmental funds account for \$1,152,024 of the balance, and the proprietary funds account for \$1,442,976 of the balance.
- A balance of \$5,110,000 remains on certificates of participation (series 2011) which were issued in the original amount of \$5,555,000, \$4,535,000 of which was allocated to the water fund to pay for construction of a radionuclide treatment system and \$1,020,000 was allocated to the sewer fund to pay for the installation of equipment to prevent ultraviolet degradation of treatment media. The final payment on the certificates of participation is to be made May 2021. Balances at September 30, 2012 included \$4,170,000 for water system and \$940,000 for the sewer system.
- The City has a capital lease for the construction of the fire station with a balance of \$3,833,000 with final payment due August 2029.

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 2012 was \$186,979,969, resulting in a legal general obligation debt margin for the City of Farmington of \$37,395,994 which is well above the City's current total debt obligations. The City holds no general obligation debt related to payment from property taxes.

* 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-

Management Discussion and Analysis

City of Farmington

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, experienced an average 4% annual growth in sales tax receipts. Beginning in Fiscal Year 2008, the average began to decline. For the fiscal year ending September 30, 2012, the City realized an increase in sales tax for the first time since the 2008 decline. The increase was 1.9% in sales tax receipts and was attributable to the start of a turn in the economy. The City is guarded in its budgeted growth and expenditures for the ensuing fiscal year. Without continuation of 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 tax assessment has increased for the upcoming fiscal year from \$0.4441 to \$0.4448 per \$100 of assessed valuation.

Transient Guest Tax. In April 2009, the residents of the City passed a 5% transient guest tax. Collections of this tax began October 2009; revenues are to be used for marketing and tourism for the City.

Unemployment. Unemployment in the area around the City on a three month rolling average consistently exceeded 10% since January of 2009 until August 2011 when this average fell below the 10% mark. The Farmington Micropolitan Area is currently experiencing an unemployment rate at 8%.

Funding. The City 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 purchases power from the Missouri Public Utility Alliance - Public Energy Pool. The Pool expects wholesale electric rates to 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, 2013

Governmental Activities

Budgeted revenues in the governmental funds (net of transfers) are expected to increase by approximately 4% to approximately \$11.667 million. This increase is due to an increase in anticipated sales tax revenue and an increase in the amount of PILOTs (based on increased revenue in the proprietary funds). A 5% percent payment in lieu of taxes is budgeted.

Budgeted personnel and operating expenditures in the General Fund are expected to rise less than 1% to approximately \$7.2 million based on economic conditions. The budget provides for a 2% cost of living increase for all employees in addition to step increases for any employees who are eligible and no change in benefits provided. Governmental funds capital investment is budgeted at \$2.5 million compared to a budget of \$1.5 million in the preceding fiscal year. The City replaced an expiring 1/2% capital sales tax with a 1/4% storm water and parks sales tax and a 1/4% transportation sales tax. The additional capital budget is for projects related to storm water drainage and streets.

Business-Type Activities

Budgeted revenues in the proprietary funds are expected to increase to approximately \$28.9 million, an 11.4% increase over the prior year. This increase is largely driven by a substantial increase in the capital grant proceeds anticipated at the airport and revenue received from new intergovernmental agreements to operate the Farmington Correctional Center water system and waste system macerator.

Budgeted operating expenditures in the Civic Complex Fund are expected to increase approximately 15% over prior year actual. 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% from the prior year actual. This increase is split between personnel and standard operating costs. Power purchase costs are budgeted to increase approximately 7% over the prior year. This increase consists of a combination of increased per megawatt hour costs and a reduction in capacity credits. Budgeted operating expenditures in the Utility Fund Water Department are expected to increase approximately 81% over the prior year actual. These increases are primarily due to the aforementioned intergovernmental agreement. These anticipated increases are offset by related revenue. Sewer Fund expenditures are budgeted to increase approximately 16% over the prior year actual. This increase is largely due to the aforementioned intergovernmental agreement. These anticipated increases are offset by related revenue.

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.

BASIC FINANCIAL STATEMENTS

CITY OF FARMINGTON, MISSOURI
STATEMENT OF NET POSITION
September 30, 2012

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash & Cash Equivalents	\$ 2,167,953	\$ 7,998,538	\$ 10,166,491
Investments	0	0	0
Receivables (Net)	1,686,379	2,992,856	4,679,235
Prepaid Expenses	48,918	72,820	121,738
Prepaid Interest	35,695	0	35,695
Due From Other Funds	133,414	0	133,414
Inventory	0	1,202,672	1,202,672
Total	4,072,359	12,266,886	16,339,245
Noncurrent Assets			
Restricted Assets:			
Cash & Cash Equivalents	1,878,892	532,845	2,411,737
Investments	385,626	3,535,652	3,921,278
Capital Assets (Net)			
Non Depreciable	2,243,680	1,020,450	3,264,130
Depreciable	23,371,933	48,202,110	71,574,043
Total	27,880,131	53,291,057	81,171,188
TOTAL ASSETS	31,952,490	65,557,943	97,510,433
<u>DEFERRED OUTFLOW OF RESOURCES</u>	0	0	0
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	601,813	1,620,004	2,221,817
Accrued Salaries	232,864	145,800	378,664
Accrued Interest	20,624	91,527	112,151
Taxes Payable	0	98,644	98,644
Protested Taxes	40,919	0	40,919
Due to Other Funds	110,467	22,948	133,415
Builder's Deposits	0	12,756	12,756
Other Payable	114,016	129,060	243,076
Current Portion of Long-Term Debt	560,940	1,452,060	2,013,000
Total	1,681,643	3,572,799	5,254,442
Long-Term Liabilities			
Customer Deposits Payable	0	374,044	374,044
Due to State of Missouri - State Revolving Fund	0	2,081,069	2,081,069
Bonds Payable	0	2,960,000	2,960,000
Capital Leases Payable	4,985,024	6,552,976	11,538,000
Less Current Maturities	(560,940)	(1,452,060)	(2,013,000)
Total	4,424,084	10,516,029	14,940,113
TOTAL LIABILITIES	6,105,727	14,088,828	20,194,555
<u>DEFERRED INFLOW OF RESOURCES</u>			
Administrative Expense Deposits	3,932	0	3,932
Civic Center Facility Use Deposits	0	7,288	7,288
State of Missouri - Office of Administration FCC Contract	0	1,300,000	1,300,000
TOTAL DEFERRED INFLOW OF RESOURCES	3,932	1,307,288	1,311,220
<u>NET POSITION</u>			
Net Investment in Capital Assets	20,630,589	39,709,584	60,340,173
Restricted for:			
Debt Service	755,067	1,570,240	2,325,307
Capital Projects	882,044	0	882,044
Nonspendable	84,613	0	84,613
Sewer	0	532,845	532,845
Tax Increment Finance District Projects	1,007,958	0	1,007,958
Unrestricted	2,482,560	8,349,158	10,831,718
TOTAL NET POSITION	\$ 25,842,831	\$ 50,161,827	\$ 76,004,658

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Position - Primary Government		
	Expenses	Charges for Services	Capital Grants	Contributions & Operating Grants	Governmental Activities	Business-Type Activities	Totals
<u>FUNCTIONS/PROGRAMS</u>							
Governmental Activities:							
General Government	\$ 1,790,281	\$ 39,581	\$ 0	\$ 0	\$ (1,750,700)	\$ 0	\$ (1,750,700)
Public Safety	3,434,209	531,919	0	246,070	(2,656,220)	0	(2,656,220)
Streets and Public Works	2,195,153	68,115	0	0	(2,127,038)	0	(2,127,038)
Culture and Recreation	1,041,408	86,288	0	15,327	(939,793)	0	(939,793)
Total Governmental Activities	<u>8,461,051</u>	<u>725,903</u>	<u>0</u>	<u>261,397</u>	<u>(7,473,751)</u>	<u>0</u>	<u>(7,473,751)</u>
Business-Type Activities:							
Airport	555,941	324,074	154,746	0	0	(77,121)	(77,121)
Electric	18,277,418	18,790,495	0	0	0	513,077	513,077
Water	2,256,488	2,568,814	23,750	0	0	336,076	336,076
Sewer	2,423,896	2,234,229	0	0	0	(189,667)	(189,667)
Civic Complex	2,068,269	1,382,046	0	263,578	0	(422,645)	(422,645)
Total Business-Type Activities	<u>25,582,012</u>	<u>25,299,658</u>	<u>178,496</u>	<u>263,578</u>	<u>0</u>	<u>159,720</u>	<u>159,720</u>
Total City Functions/Programs	<u>\$ 34,043,063</u>	<u>\$ 26,025,561</u>	<u>\$ 178,496</u>	<u>\$ 524,975</u>	<u>(7,473,751)</u>	<u>159,720</u>	<u>(7,314,031)</u>
General Revenues:							
Taxes							
Sales Taxes					6,494,255	0	6,494,255
Real and Personal Property Taxes					798,999	0	798,999
Motor Fuel and Vehicle Taxes					571,247	0	571,247
Gross Receipts Taxes					550,947	0	550,947
Transient Guest Tax (Hotel/Motel)					190,516	0	190,516
TIF Proceeds					431,866	0	431,866
Utility and Other Taxes					164,930	0	164,930
Administrative Pilot Payment					1,155,000	0	1,155,000
Interest Income					77,809	310,511	388,320
Gain on Disposal of Asset					7,000	(569,036)	(562,036)
Transfers					(1,856,047)	1,856,047	0
Total General Revenues and Transfers					<u>8,586,522</u>	<u>1,597,522</u>	<u>10,184,044</u>
Change in Net Position for the Year					1,112,771	1,757,242	2,870,013
Restated Net Position - October 1, 2011					24,730,060	48,404,585	73,134,645
Ending Net Position - September 30, 2012					<u>\$ 25,842,831</u>	<u>\$ 50,161,827</u>	<u>\$ 76,004,658</u>

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

CITY OF FARMINGTON, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2012

	Major Funds					Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	
ASSETS						
Cash & Cash Equivalents	\$ 2,167,953	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,167,953
Investments	0	0	0	0	0	0
Accounts Receivable (net)	949,968	0	481,494	221,024	33,893	1,686,379
Prepaid Expenses	48,918	0	0	0	0	48,918
Prepaid Interest	0	35,695	0	0	0	35,695
Due From Other Funds	22,948	0	0	110,466	0	133,414
Restricted Assets:						
Cash & Investments	12,000	392,549	1,047,553	726,047	86,369	2,264,518
Total Assets	3,201,787	428,244	1,529,047	1,057,537	120,262	6,336,877
DEFERRED OUTFLOWS OF RESOURCES						
	0	0	0	0	0	0
TOTAL ASSETS & DEFERRED OUTFLOWS	\$ 3,201,787	\$ 428,244	\$ 1,529,047	\$ 1,057,537	\$ 120,262	\$ 6,336,877
LIABILITIES						
Accounts Payable	\$ 221,706	\$ 0	\$ 214,198	\$ 45,647	\$ 120,262	\$ 601,813
Accrued Salaries	232,864	0	0	0	0	232,864
Accrued Interest Payable	0	20,624	0	0	0	20,624
Protested Taxes	40,919	0	0	0	0	40,919
Due to Other Funds	60,804	0	49,663	0	0	110,467
Other Liabilities	114,016	0	0	0	0	114,016
Total Liabilities	670,309	20,624	263,861	45,647	120,262	1,120,703
DEFERRED INFLOWS OF RESOURCES						
Administrative Expense Deposits	0	0	0	3,932	0	3,932
Total Deferred Inflows of Resources	0	0	0	3,932	0	3,932
FUND BALANCE						
Nonspendable						
Prepays	48,918	35,695	0	0	0	84,613
Restricted						
Debt Service	0	18,941	383,142	0	0	402,083
Debt Service Reserve	0	352,984	0	0	0	352,984
Capital Projects	0	0	882,044	0	0	882,044
Karsch-Downtown TIF District	0	0	0	829,008	0	829,008
Highway 67 TIF District	0	0	0	178,950	0	178,950
Committed						
Acquisition/Improvement of Public Spaces	32,799	0	0	0	0	32,799
Assigned						
Other Purposes	8,826	0	0	0	0	8,826
Wilson Rozier Ballpark	38,517	0	0	0	0	38,517
Unassigned	2,402,418	0	0	0	0	2,402,418
Total Fund Balances	2,531,478	407,620	1,265,186	1,007,958	0	5,212,242
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 3,201,787	\$ 428,244	\$ 1,529,047	\$ 1,057,537	\$ 120,262	\$ 6,336,877
Amounts reported for governmental activities in the statement of net position are different because:						
Total Fund Balance - Total Governmental Funds						\$ 5,212,242
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.						
Governmental capital assets				38,648,636		
Less accumulated depreciation				(13,033,023)		
						25,615,613
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				(4,985,024)		(4,985,024)
Net Position of Governmental Activities						\$ 25,842,831

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, 2012

	Major Funds					Total
	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	Governmental Funds
REVENUES						
Sales Tax	\$ 3,299,371	\$ 0	\$ 3,194,884	\$ 0	\$ 0	\$ 6,494,255
Real and Personal Property Tax	798,999	0	0	0	0	798,999
Grants and Donations	261,397	0	0	0	0	261,397
Charges for Services	693,040	0	0	0	0	693,040
Motor Fuel and Vehicle Tax	571,247	0	0	0	0	571,247
Utility, Gross Receipts & Other Taxes	715,877	0	0	0	0	715,877
Transient Guest (Hotel/Motel) Tax	0	0	0	0	190,516	190,516
Interest Income	2,316	71,329	3,724	415	25	77,809
TIF Proceeds From Other Governments	0	0	0	431,866	0	431,866
Administrative Pilot Payment	1,155,000	0	0	0	0	1,155,000
Other	21,796	0	0	11,067	0	32,863
Total Operating Revenues	7,519,043	71,329	3,198,608	443,348	190,541	11,422,869
EXPENSES						
General Government						
Administration	1,196,713	0	0	374,996	0	1,571,709
Tourism	0	0	0	0	190,541	190,541
Public Safety						
Police	2,134,877	0	0	0	0	2,134,877
Municipal Court	89,340	0	0	0	0	89,340
Fire	769,240	148,953	0	0	0	918,193
Streets and Public Works						
Street	711,476	48,988	0	0	0	760,464
Public Works	355,908	0	0	0	0	355,908
Maintenance	434,137	0	0	0	0	434,137
Culture and Recreation						
Park	663,678	0	0	0	0	663,678
Library	294,166	0	0	0	0	294,166
Capital Outlay	612,307	0	544,274	0	0	1,156,581
Debt Service-Principal	0	544,840	0	0	0	544,840
Total Expenses	7,261,842	742,781	544,274	374,996	190,541	9,114,434
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	257,201	(671,452)	2,654,334	68,352	0	2,308,435
OTHER FINANCING SOURCES (USES)						
Transfer In	4,000	685,669	0	404,603	0	1,094,272
Transfer Out	(220,441)	0	(2,489,203)	(240,675)	0	(2,950,319)
Gain/Loss on Asset	7,000	0	0	0	0	7,000
Total Other Financing Sources And Uses	(209,441)	685,669	(2,489,203)	163,928	0	(1,849,047)
NET CHANGE IN FUND BALANCES	47,760	14,217	165,131	232,280	0	459,388
FUND BALANCES - OCTOBER 1, 2011	2,483,718	393,403	1,100,055	775,678	0	4,752,854
FUND BALANCES - SEPTEMBER 30, 2012	\$ 2,531,478	\$ 407,620	\$ 1,265,186	\$ 1,007,958	\$ 0	\$ 5,212,242

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, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 459,388
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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	1,156,580
Depreciation	(1,048,037)

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	(42,178)
Accumulated Depreciation	42,178

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.

544,840

Change in Net Position of Governmental Activities as Reported on the Statement of Activities	\$ <u>1,112,771</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF FARMINGTON, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

September 30, 2012

	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>ASSETS</u>					
Current Assets:					
Cash & Cash Equivalents	\$ 513,773	\$ 25,016	\$ 7,459,749	\$ 0	\$ 7,998,538
Accounts Receivable	27,766	91,161	2,596,131	277,798	2,992,856
Prepays	4,734	957	62,047	5,082	72,820
Due From Other Funds	0	0	0	0	0
Inventory	0	12,357	1,167,544	22,771	1,202,672
Total Current	546,273	129,491	11,285,471	305,651	12,266,886
NonCurrent Assets:					
Restricted Assets:					
Cash & Cash Equivalents	0	0	0	532,845	532,845
Investments	467,874	0	478,888	2,588,890	3,535,652
Advances To Other Funds	0	0	0	0	0
Capital Assets (Net of Accumulated Depreciation)	10,819,362	6,707,043	14,776,460	16,919,695	49,222,560
Total NonCurrent	11,287,236	6,707,043	15,255,348	20,041,430	53,291,057
Total Assets	11,833,509	6,836,534	26,540,819	20,347,081	65,557,943
<u>DEFERRED OUTFLOW OF RESOURCES</u>	0	0	0	0	0
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	11,833,509	6,836,534	26,540,819	20,347,081	65,557,943
<u>LIABILITIES</u>					
Current Liabilities:					
Accounts Payable	43,059	4,212	1,488,848	83,885	1,620,004
Accrued Salaries	33,187	1,848	72,079	38,686	145,800
Accrued Interest	25,826	0	53,585	12,116	91,527
Taxes Payable	0	0	98,644	0	98,644
Due to Other Funds	0	22,948	0	0	22,948
Builder's Deposits	0	0	12,756	0	12,756
Other Liabilities	1,253	413	72,087	55,307	129,060
Current Portion of Long-Term Debt	492,060	0	370,000	590,000	1,452,060
Total	595,385	29,421	2,167,999	779,994	3,572,799
Long-Term Liabilities:					
Customer Deposits Payable	0	0	374,044	0	374,044
Due to State of Missouri - State Revolving Fund	0	0	0	2,081,069	2,081,069
Revenue Bonds Payable	0	0	0	2,960,000	2,960,000
Capital Leases Payable	1,442,976	0	4,170,000	940,000	6,552,976
Less Current Maturities	(492,060)	0	(370,000)	(590,000)	(1,452,060)
Total	950,916	0	4,174,044	5,391,069	10,516,029
Total Liabilities	1,546,301	29,421	6,342,043	6,171,063	14,088,828
<u>DEFERRED INFLOW OF RESOURCES</u>					
Civic Center Facility Use Deposits	7,288	0	0	0	7,288
State of Missouri - Office of Administration FCC Contract	0	0	1,300,000	0	1,300,000
Total Deferred Inflow of Resources	7,288	0	1,300,000	0	1,307,288
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	1,553,589	29,421	7,642,043	6,171,063	15,396,116
<u>NET POSITION</u>					
Net Investment in Capital Assets	9,376,386	6,707,043	10,606,460	13,019,695	39,709,584
Restricted	467,874	0	478,888	1,156,323	2,103,085
Unrestricted	435,660	100,070	7,813,428	0	8,349,158
TOTAL NET POSITION	\$ 10,279,920	\$ 6,807,113	\$ 18,898,776	\$ 14,176,018	\$ 50,161,827

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2012

	Enterprise Funds				
	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>OPERATING REVENUES</u>					
Charges for Services:					
Civic Complex Charges	\$ 1,382,046	\$ 0	\$ 0	\$ 0	\$ 1,382,046
Airport Charges	0	282,662	0	0	282,662
Electric Charges	0	0	18,790,495	0	18,790,495
Water Charges	0	0	2,549,926	0	2,549,926
Sewer Charges	0	0	0	2,234,229	2,234,229
Total Operating Revenues	1,382,046	282,662	21,340,421	2,234,229	25,239,358
<u>OPERATING EXPENSES</u>					
Civic Complex Expenses	1,601,844	0	0	0	1,601,844
Airport Expenses	0	294,682	0	0	294,682
Electric Expenses	0	0	17,736,046	0	17,736,046
Water Expenses	0	0	1,758,001	0	1,758,001
Sewer Expenses	0	0	0	1,501,748	1,501,748
Depreciation	405,080	261,259	863,956	675,059	2,205,354
Total Operating Expenses	2,006,924	555,941	20,358,003	2,176,807	25,097,675
OPERATING INCOME (LOSS)	(624,878)	(273,279)	982,418	57,422	141,683
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Grant Income	170,256	154,651	23,750	0	348,657
Contributions	93,322	95	0	0	93,417
Interest and Investment Income	352	27	121,117	189,015	310,511
Bond Fees	(1,133)	0	(21,616)	(32,097)	(54,846)
Interest Expense	(60,212)	0	(154,287)	(214,992)	(429,491)
Insurance Proceeds and Settlements	0	41,412	18,888	0	60,300
Gain or Loss on Disposal of Assets	0	0	(569,036)	0	(569,036)
Total Nonoperating Revenues (Expenses)	202,585	196,185	(581,184)	(58,074)	(240,488)
NET INCOME (LOSS) BEFORE TRANSFERS	(422,293)	(77,094)	401,234	(652)	(98,805)
<u>TRANSFERS</u>					
Transfers In	572,731	39,285	256,137	991,894	1,860,047
Transfers Out	0	0	0	(4,000)	(4,000)
Total Transfers	572,731	39,285	256,137	987,894	1,856,047
CHANGE IN NET POSITION	150,438	(37,809)	657,371	987,242	1,757,242
RESTATEd NET POSITION - OCTOBER 1, 2011	10,129,482	6,844,922	18,241,405	13,188,776	48,404,585
NET POSITION - SEPTEMBER 30, 2012	\$ 10,279,920	\$ 6,807,113	\$ 18,898,776	\$ 14,176,018	\$ 50,161,827

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, 2012

	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 1,377,998	\$ 284,060	\$ 21,251,716	\$ 2,218,005	\$ 25,131,779
Payments to Suppliers	(753,951)	(257,747)	(18,055,947)	(949,722)	(20,017,367)
Payments to Employees	(831,942)	(32,794)	(1,292,718)	(612,478)	(2,769,932)
Net Cash Provided (Used) By Operating Activities	(207,895)	(6,481)	1,903,051	655,805	2,344,480
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers In	572,731	39,285	256,137	991,894	1,860,047
Transfers Out	0	0	0	(4,000)	(4,000)
Contributions and Operating Grants	263,578	95	0	0	263,673
Insurance Proceeds, Settlements and Other	0	41,413	18,888	0	60,301
Deferred Inflow of Revenue - FCC Contract	0	0	1,300,000	0	1,300,000
Loans To/From Other Funds	0	22,948	668,182	(668,182)	22,948
Net Cash Provided (Used) For Noncapital Financing Activities	836,309	103,741	2,243,207	319,712	3,502,969
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Capital Grant Receipts	0	69,799	0	0	69,799
Principal Payments on Long-Term Debt	(478,160)	0	(2,058,000)	(1,577,000)	(4,113,160)
Interest Paid	(60,212)	27	(154,287)	(214,992)	(429,464)
Bond Fees	(1,133)	0	(21,616)	(32,098)	(54,847)
Sale of Capital Assets	0	0	1,234,749	0	1,234,749
Acquisition of Capital Assets	(103,396)	(175,729)	(864,467)	(248,740)	(1,392,332)
Net Cash Used For Capital & Related Financing Activities	(642,901)	(105,903)	(1,863,621)	(2,072,830)	(4,685,255)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemption of Investments	8,536	0	1,074,599	900,723	1,983,858
Investment Earnings	352	0	121,117	175,132	296,601
Net Cash Provided by Investing Activities	8,888	0	1,195,716	1,075,855	2,280,459
Net Change in Cash and Cash Equivalents	(5,599)	(8,643)	3,478,353	(21,458)	3,442,653
Balances at October 1, 2011	519,372	33,659	3,981,396	554,303	5,088,730
Balances at September 30, 2012	\$ 513,773	\$ 25,016	\$ 7,459,749	\$ 532,845	\$ 8,531,383
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (624,878)	\$ (273,279)	\$ 982,418	\$ 57,422	\$ 141,683
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation Expenses	405,080	261,259	863,956	675,059	\$ 2,205,354
Changes in Assets and Liabilities					
Accounts Receivable	(4,048)	1,398	(77,648)	(16,225)	\$ (96,523)
Prepays	120	30	9,830	9,151	\$ 19,131
Inventory	0	34,345	71,165	(5,659)	\$ 99,851
Accounts Payable & Other Payables	17,383	(30,060)	67,352	(71,059)	\$ (16,384)
Customer and Builder Deposits Payable	0	0	(11,057)	0	\$ (11,057)
Accrued Salaries and Compensated Absences	(1,552)	(174)	(2,965)	7,116	\$ 2,425
Net Cash Provided (Used) by Operating Activities	\$ (207,895)	\$ (6,481)	\$ 1,903,051	\$ 655,805	\$ 2,344,480

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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies utilized by the City in the preparation of the accompanying basic financial statements.

A. The Reporting Entity

The City of Farmington, Missouri currently operates as a third class city of the State of Missouri under the Mayor, Council-City Administrator form of government and provides municipal services to its residents. The accompanying financial statements include the accounting information for all City operations.

Under generally accepted accounting principles, 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 are appointed by the Board in place at the time.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statements of net position 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 the effect of all inter-fund activity on the entity wide financial statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which reports 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. The program expenses include those expenses that can clearly be identified with a specific function or segment.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

The City utilizes the following funds:

Governmental Fund Types:

While the City could report the Debt Service Fund and Transient Tax Fund in aggregate under non-major funds, City officials believe it is important that the financial information for the Transient Tax Fund be presented separately. Therefore, 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: Civic Complex Fund, Airport Fund, Utility Fund (Electric and Water), and Sewer Fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities. The government-wide financial statements are reported 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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

eligibility requirements imposed by the provider have been met. Property tax revenues are recognized when billed.

Governmental fund financial statements are reported 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 taxes, franchise taxes, grants, 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.

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, the City customarily utilizes restricted funds prior to unrestricted funds. It is the City's policy to utilize the method defined at the time the expenditure was budgeted.

The effect of all inter-fund activity has been eliminated from the government-wide financial statements except for an administrative payment in lieu of taxes from the proprietary funds to the governmental funds.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Balance/Net Position

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 loan 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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The excess amount of demand deposits and certificates of deposit not covered by FDIC insurance are required to be 100% collateralized. Obligations that may be pledged as collateral include the same type as those authorized for investment by the City. All legal requirements were met during the year ended September 30, 2012.

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 Utility (Electric and Water) 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.

Deferred Outflow of Resources

The consumption of net assets in one period that are applicable to a future reporting period is recorded as a deferred outflow of resources. The City has no deferred outflows of resources as of September 30, 2012.

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. These items are classified as restricted on the balance sheet and on the statement of net position 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

Capital assets, which include 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. To meet the definition of a capital asset for the City, an item must have a useful life of more than one year and a minimum initial cost as follows:

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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

In accordance with GASB Statement No. 34, general government infrastructure assets (streets, sidewalks, curbs and gutters) have been capitalized retroactively to 1980 at historical cost. Additionally, the costs of normal maintenance and repairs that do not add to the value of an asset or significantly extend asset 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 life of the assets. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20 - 50	Water and Wastewater Infrastructure	15 - 40
Improvements/Infrastructure	5 - 50	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.

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

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

Deferred Inflows of Resources

The acquisition of assets which are applicable to a future reporting period are referred to as Deferred Inflows of Resources. Certain receipts of the City are applicable to services provided in future accounting periods and only become revenue upon the use of the service or commencement of contract. The deferred inflows realized by the City include prepayment of facility deposits at the Civic Center for future use and funds placed on deposit prior to the commencement of a contract between the Farmington Correctional Facility and the City related to the operation of the facility's water system to commence October 1, 2012.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Fund Balance

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.

- *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.
- *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.
- *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 based on the recommendation of City management and approval by the City Administrator.
- *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.

The fund balance classifications for the governmental funds at September 30, 2012 are:

FUND BALANCES	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	SPECIAL ALLOCATION FUND	TRANSIENT GUEST TAX FUND	TOTAL GOVERNMENTAL FUNDS
Non-spendable						
Prepays	\$ 48,918	\$ 35,695	\$ 0	\$ 0	\$ 0	\$ 84,613
Restricted						
Debt Service	0	18,941	383,142	0	0	402,083
Debt Service Reserve	0	352,984	0	0	0	352,984
Karsch-Downtown TIF District	0	0	0	829,008	0	829,008
Highway 67 TIF District	0	0	0	178,950	0	178,950
Street and Sidewalk Improvements	0	0	882,044	0	0	882,044
	0	371,925	1,265,186	1,007,958	0	2,645,069
Committed						
Improvement of Public Spaces	32,799	0	0	0	0	32,799
Assigned						
Other Purposes	8,826	0	0	0	0	8,826
Wilson Rozier Ball park	38,517	0	0	0	0	38,517
	47,343	0	0	0	0	47,343
Unassigned	2,402,418	0	0	0	0	2,402,418
Total Fund Balances	\$ 2,531,478	\$ 407,620	\$ 1,265,186	\$ 1,007,958	\$ 0	\$ 5,212,242

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

When committed, assigned, and unassigned funds are available for use, it is the City's policy to spend the funds in this respective order. However, in the event that the unassigned funds exceed the City's fund balance policy threshold of 22% of expenditures for the adopted budget, unassigned funds may be utilized prior to committed and assigned funds.

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.

Net Position

There are three segments that make up the City's net position in the government-wide and proprietary fund financial statements; these are Net Investment in Capital Assets, Restricted, and Unrestricted.

- The amounts listed as ***Net Investment in Capital Assets*** 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. As of September 30, 2012, the City had a total of \$60,340,173 net investment in capital assets.
- ***Restricted net position*** is legally restricted or identified for specific purposes by outside parties or by law through constitutional provisions or enabling legislation. At September 30, 2012, the City's restricted net position of \$4,832,767 is comprised of debt service, capital projects, sewer and tax increment financing. Governmental activities restricted net position at September 30, 2012, is \$2,729,682. Restricted net position of the business-type activities totals \$2,103,085.
- ***Unrestricted net position*** is the residual and represents amounts available for future operations or distribution. Government wide unrestricted net position at September 30, 2012 is \$10,831,718.

E. 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, 2012 was prepared and adopted using the modified accrual basis of accounting for governmental funds and accrual accounting for proprietary funds.

Per state statute, at the fund level, actual expenditures are not to 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. Actual expenditures of the Transient Guest Tax Fund exceeded budgeted expenditures by \$15,541. This excess expenditure is offset by a corresponding amount of tax revenue and interest income in excess of budgeted revenue.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

disclosures. Accordingly, actual results may differ from those estimates.

G. Intra-governmental Revenue

The proprietary funds 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. The percent remitted for the year ending September 30, 2012 is 5%.

H. Future Accounting Pronouncements

This report does not incorporate GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The City will adopt and implement these statements at the required time.

I. Adoption of New Accounting Pronouncements

Effective October 1, 2011, the City adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*; GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; and GASB Statement No. 66, *Technical Corrections — 2012 — an amendment of GASB Statements No. 10 and No. 62*. Statements No. 61, 62, 64, and 66 had little to no impact on the presentation of the financial statements contained herein.

The purpose of Statement No. 63 is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Statement No. 65 serves to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. With the implementation of these pronouncements, items previously reported as assets/liabilities which resulted in consumption or acquisition of net assets in one period that are applicable to future accounting periods are reclassified as deferred inflows/outflows of resources.

J. Prior Period Adjustments - Change in Accounting Principle

With the adoption of GASB Statements No. 63 and 65, bond discounts and premiums, which were previously amortized over the term of the related issue, are expensed at the time of issue. Thus, a prior period adjustment has been made to restate the net position accounting for unamortized issuance costs and discounts previously reported as noncurrent assets.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Governmental funds were not affected by the restatement to account for the change in accounting principle. The following schedule of adjustments depicts the changes made to business-type activity funds.

	Business-Type Activities				
	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Total
Net Position, September 30, 2011	\$ 10,129,482	\$ 6,844,922	\$ 18,329,089	\$ 13,216,874	\$ 48,520,367
Prior Period Adjustments Due to Change in Accounting Principle	0	0	(87,684)	(28,098)	(115,782)
Restated Net Position, October 1, 2011	<u>\$ 10,129,482</u>	<u>\$ 6,844,922</u>	<u>\$ 18,241,405</u>	<u>\$ 13,188,776</u>	<u>\$ 48,404,585</u>

NOTE 2 – CASH 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 not greater than three months. For cash flows purposes these are considered cash equivalents. Deposits and investments are stated at either cost or fair value based on which best 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, 2012, the bank balances of the City's deposits were covered by federal depository insurance or by collateral held by the City's agent in the City's name. At September 30, 2012, the bank balances in the City's checking accounts were \$12,894,835. Pledged securities held by the bank in the City's name had a market value of \$13,401,903.

Total cash and investments, as of September 30, 2012, consist of the following:

Type	Amount	Reconciliation to the Statement of Net Position	
Cash on Hand	\$ 1,164	Current Assets	
Deposits	12,144,491	Cash and Cash Equivalents	\$ 10,166,491
Money Market Accounts	427,573	Investments	0
Certificates of Deposit	17,000		10,166,491
Money Market Mutual Funds	751,926	Noncurrent Assets	
Bond Mutual Funds	374,021	Cash and Cash Equivalents - Restricted	2,411,737
Guaranteed Investment Contracts	2,213,909	Investments	3,921,278
United States Treasury Notes	569,422		6,333,015
Total Deposits and Investments	<u>\$ 16,499,506</u>		<u>\$ 16,499,506</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 2 – CASH AND INVESTMENTS - continued

Interest Rate Risks and Credit Risks

Interest rate risk is the risk that the fair value of investments will fall due to changes in general interest rates. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's. The maturities of investments and credit quality ratings held by the City at September 30, 2012 are as follows:

Type	Fair Value	Investment Maturities			Credit Quality Rating
		Less Than One Year	1-5 Years	6-10 years	
Certificates of Deposit	\$ 12,000	\$ 12,000	\$ 0	\$ 0	N/A
Money Market Mutual Funds	751,926	751,926	0	0	AAAm
Bond Mutual Funds	374,021	373,626	0	395	AAAm
Guaranteed Investment Contracts *	2,213,909	0	0	2,213,909	AA+
United States Treasury Notes **	569,422	0	0	569,422	AAA

* While the Guaranteed Investment Contracts mature in 6-10 years, it should be noted that this investment type is not subject to interest rate risk.

** United States Treasury securities are guaranteed by the US Government.

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 and statement of net position because they are maintained in separate bank accounts and their use is limited by debt covenants or other statutory provisions.

At September 30, 2012, the balance of the restricted assets is \$6,333,015.

NOTE 3 – PROPERTY TAXES

Property assessed values are determined by the St. Francois County Assessor. The City levied a property tax at the rate of \$0.4441 per \$100 of assessed valuation to be used for general revenue purposes. The City's property taxes are billed and collected by the St. Francois County Collector and subsequently remitted to the City. Taxes are levied on October 1 and mailed to residents in November, and are payable on or before January 1 of the following year. Property tax revenues are recognized when billed. All unpaid taxes become delinquent after January 1 at which time the property taxes attach as an enforceable lien on the property if unpaid.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 4 – ACCOUNTS RECEIVABLE AND PAYABLE

Accounts Receivable

In the governmental funds, accounts receivable consist 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 Farmington R-7 School District for school resource officer services, fuel taxes, property taxes, and hotel taxes. These receivables are recorded when they are both measurable and available.

In the proprietary funds, accounts receivable consist 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, Missouri Department of Transportation grant reimbursements, and airport rentals/leases.

The City considers these accounts receivable fully collectible, except for the municipal court and property tax receivables. Therefore, only an allowance of \$262,777 is recorded (municipal court receivables allowance \$247,621; property tax receivables allowance \$15,156).

Accounts receivable balances at September 30, 2012 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	\$ 563,430	\$ 21,338	\$ 627,977	\$ 1,212,745	\$ 262,777	\$ 949,968
Capital Projects	0	0	481,494	481,494	0	481,494
TIF Districts	221,024	0	0	221,024	0	221,024
Transient Tax	0	0	33,893	33,893	0	33,893
Total Governmental Activities	<u>\$ 784,454</u>	<u>\$ 21,338</u>	<u>\$ 1,143,364</u>	<u>\$ 1,949,156</u>	<u>\$ 262,777</u>	<u>\$ 1,686,379</u>
Business-Type Activities:						
Civic Complex	\$ 27,766	\$ 0	\$ 0	\$ 27,766	\$ 0	\$ 27,766
Airport	2,100	89,061	0	91,161	0	91,161
Water and Electric Utility	2,572,381	23,750	0	2,596,131	0	2,596,131
Sewer Utility	277,798	0	0	277,798	0	277,798
Total Business-Type Activities	<u>\$ 2,880,045</u>	<u>\$ 112,811</u>	<u>\$ 0</u>	<u>\$ 2,992,856</u>	<u>\$ 0</u>	<u>\$ 2,992,856</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 4 – ACCOUNTS RECEIVABLE AND PAYABLE - continued

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, 2012 have been accrued. Governmental activities reported accounts payable in the amount of \$601,813. Business-type activities reported accounts payable in the amount of \$1,620,004, of which \$1,154,536 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, 2012 are as follows:

	Payments to <u>Vendors</u>	Payments to <u>Employees</u>	Interest <u>Payable</u>	Taxes <u>Payable</u>	Total <u>Payables</u>
Governmental Activities:					
General	\$ 221,706	\$ 232,864	\$ 0	\$ 0	\$ 454,570
Debt Service	0	0	20,624	0	20,624
Capital Projects	214,198	0	0	0	214,198
TIF Districts	45,647	0	0	0	45,647
Transient Tax	120,262	0	0	0	120,262
Total Governmental Activities	<u>\$ 601,813</u>	<u>\$ 232,864</u>	<u>\$ 20,624</u>	<u>\$ 0</u>	<u>\$ 855,301</u>
Business-Type Activities:					
Civic Complex	\$ 43,059	\$ 33,187	\$ 25,826	\$ 0	\$ 102,072
Airport	4,212	1,848	0	0	6,060
Water and Electric Utility	1,488,848	72,079	53,585	98,644	1,713,156
Sewer Utility	83,885	38,686	12,116	0	134,687
Total Business-Type Activities	<u>\$ 1,620,004</u>	<u>\$ 145,800</u>	<u>\$ 91,527</u>	<u>\$ 98,644</u>	<u>\$ 1,955,975</u>

NOTE 5 – CAPITAL ASSETS

Capital assets are depreciated over the useful life of the asset as outlined in Note 1. Total depreciation expense for the year was \$3,253,391. Depreciation is charged to the following functions in the statement of activities:

Function/Program	Governmental Activities	Business-Type Activities
General Government	\$ 28,031	\$ 0
Public Safety	291,798	0
Streets and Public Works	644,644	0
Culture and Recreation	83,564	0
Civic Complex	0	405,080
Airport	0	261,259
Electric	0	498,617
Water	0	365,339
Sewer	0	675,059
Total	<u>\$ 1,048,037</u>	<u>\$ 2,205,354</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 5 – CAPITAL ASSETS - continued

Changes in fixed assets are as follows for the year ended September 30, 2012:

	Balance, September 30, 2011	Additions	Deletions	Balance, September 30, 2012
<u>Governmental Activities:</u>				
Capital Assets, not depreciated				
Land	\$ 1,962,943	\$ 0	\$ 0	\$ 1,962,943
Construction in Progress	33,035	262,127	14,425	280,737
Total Capital Assets, not depreciated	1,995,978	262,127	14,425	2,243,680
Capital Assets, depreciated				
Buildings	6,799,278	69,509	0	6,868,787
Land Improvements	449,903	0	0	449,903
Infrastructure	23,262,086	602,878	0	23,864,964
Furniture, Machinery & Equip	1,539,860	175,132	0	1,714,992
Vehicles	3,444,951	61,360	42,178	3,464,133
	35,496,078	908,879	42,178	36,362,779
Less Accumulated Depreciation	11,984,987	1,048,037	42,178	12,990,846
Total Capital Assets, depreciated	23,511,091	(139,158)	0	23,371,933
Capital Assets, Net	\$ 25,507,069	\$ 122,969	\$ 14,425	\$ 25,615,613

	Balance, September 30, 2011	Additions	Deletions	Balance, September 30, 2012
<u>Proprietary Activities:</u>				
Capital Assets, not depreciated				
Land	\$ 745,816	\$ 0	\$ 0	\$ 745,816
Construction in Progress	0	274,634	0	274,634
Total Capital Assets, not depreciated	745,816	274,634	0	1,020,450
Capital Assets, depreciated				
Buildings	17,550,804	475,219	0	18,026,023
Infrastructure	53,393,703	612,660	2,717,000	51,289,363
Furniture, Machinery & Equip	1,614,530	0	0	1,614,530
Vehicles	1,019,503	29,818	0	1,049,321
	73,578,540	1,117,697	2,717,000	71,979,237
Less Accumulated Depreciation	22,484,987	2,205,354	913,214	23,777,127
Total Capital Assets, depreciated	51,093,553	(1,087,657)	1,803,786	48,202,110
Capital Assets, Net	\$ 51,839,369	\$ (813,023)	\$ 1,803,786	\$ 49,222,560

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 6 – 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: 2013 \$1,200; 2014 \$1,200; 2015 \$1,200; 2016-2020 \$6,000; 2021-2025 \$6,000; and 2026-2029 \$4,800.

NOTE 7 – CAPITAL LEASES

Governmental Activities:

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

Certificates of Participation

The City entered into a capital lease to finance capital improvements through a financing arrangement with UMB Bank. Under the arrangement, the bank issued certificates of participation in the amount of \$7,955,000 on July 1, 2005 to finance the improvements. The scheduled lease payments the City makes to the bank will be used to pay the debt service on these certificates. The lease payments are due in installments ranging from \$630,000 to \$1,710,000 which began in April 2006 and continue through April 2014. Interest is payable each October 1st and April 1st at 3.58%. The balance at September 30, 2012 is \$2,595,000. Of this amount \$1,152,024 is governmental debt and \$1,442,976 is business-type debt shown on the civic complex fund.

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, 2012 is \$3,833,000.

Business-Type Activities:

The City entered into capital leases to finance the purchase of electrical power generation equipment, 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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 7 – CAPITAL LEASES - continued

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, 2012 is \$5,110,000. Of this amount \$4,170,000 is allocated to the water fund and \$940,000 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. In 2012, the City opted to sell a portion of the equipment and utilize the proceeds to pay off the lease. Therefore, the balance at September 30, 2012 is \$0.

The wastewater project lease was entered into on September 10, 2009 for \$3,075,000. Lease payments were 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, 2012 is \$0.

Future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012 are as follows:

<u>Year Ended September 30</u>	Governmental Activities	Business-Type Activities	Total
2013	\$ 744,966	\$ 1,151,395	\$ 1,896,361
2014	1,098,205	1,593,636	2,691,841
2015	310,642	614,482	925,124
2016	312,344	612,608	924,952
2017	309,361	613,058	922,419
2018-2022	1,559,147	3,026,153	4,585,300
2023-2027	1,560,065	0	1,560,065
2028-2030	599,161	0	599,161
Total Minimum Lease Payments	6,493,891	7,611,332	14,105,223
Less Amount Representing Interest & Fees	1,508,868	1,058,355	2,567,223
Present Value of Minimum Lease Payments	\$ 4,985,023	\$ 6,552,977	\$ 11,538,000

Assets under capital leases at September 30, 2012 include:

Land and buildings with a cost of \$9,094,254 and accumulated depreciation of \$1,276,378; Machinery and Equipment with a cost of \$5,475,305 and accumulated depreciation of \$41,263; and Infrastructure with a cost of \$3,062,995 and accumulated depreciation of \$620,631. Total cost is \$17,632,553 and total accumulated depreciation of \$1,938,271.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 8 – 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, 2012 was \$2,960,000. 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>
2013	\$ 300,000	\$ 167,538
2014	305,000	150,288
2015	315,000	132,750
2016	320,000	114,638
2017	330,000	97,038
2018-2021	1,390,000	199,675
Total	<u>\$ 2,960,000</u>	<u>\$ 861,926</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 2012, the City paid back \$203,000. As of September 30, 2012, the balance due to the State was \$2,072,000. 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>
2013	\$ 210,000
2014	213,500
2015	220,500
2016	224,000
2017	231,000
2018-2021	982,069
Total	<u>\$ 2,081,069</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

Long-term debt activity for the year ended September 30, 2012 was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Business-Type Activities:				
Due to The State of MO	\$ 2,284,069	\$ 0	\$ 203,000	\$ 2,081,069
Revenue Bonds	3,250,000	0	290,000	2,960,000
	<u>\$ 5,534,069</u>	<u>\$ 0</u>	<u>\$ 493,000</u>	<u>\$ 5,041,069</u>

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012	Current Portion
Governmental Activities:					
Capital Leases					
Firestation Lease	\$ 3,996,000	\$ 0	\$ (163,000)	\$ 3,833,000	\$ 168,000
Certificates of Participation					
Series 2005 - Public Works Improvements	1,533,864	0	(381,840)	1,152,024	392,940
Total Governmental Activities	<u>\$ 5,529,864</u>	<u>\$ 0</u>	<u>\$ (544,840)</u>	<u>\$ 4,985,024</u>	<u>\$ 560,940</u>
Business-Type Activities:					
Capital Leases					
Electric Generators	\$ 1,693,000	\$ 0	\$ (1,693,000)	\$ 0	\$ 0
East Treatment Plant Expansion	1,004,000	0	(1,004,000)	0	0
Certificates of Participation					
Series 2005 - Centene Center	1,921,136	0	(478,160)	1,442,976	492,060
Series 2011 - Radionuclide Project	4,535,000	0	(365,000)	4,170,000	370,000
Series 2011 - Treatment Plant UV Project	1,020,000	0	(80,000)	940,000	80,000
Revenue Bonds					
Series 2000A - West Treatment Plant	3,250,000	0	(290,000)	2,960,000	300,000
Due to State of Missouri	2,284,069	0	(203,000)	2,081,069	210,000
Customer Deposits	358,635	15,409	0	374,044	0
Total Business-Type Activities	<u>\$ 16,065,840</u>	<u>\$ 15,409</u>	<u>\$ (4,113,160)</u>	<u>\$ 11,968,089</u>	<u>\$ 1,452,060</u>

NOTE 10 – DEFERRED AMOUNTS RELATED TO NET POSITION

Deferred inflows of resources exist in the amount of \$3,932 for money placed on deposit by developers to cover administrative costs related tax increment financing projects. The amount will be recognized as revenue at such time as expenses are generated that need to be reimbursed.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 10 – DEFERRED AMOUNTS RELATED TO NET POSITION - continued

For business-type activities, a deferred inflow of resources exist in the amount of \$1,300,000 for a deposit of funds related to a service contract with the State of Missouri Farmington Correctional Center which has an effective date of October 1, 2012; at which time, the deposit will be recognized as revenue. Additional amounts classified as deferred inflows include prepayment of facility deposits at the Civic Center for future use in the amount of \$7,288. These amounts will be realized as revenue in the future upon use of the facility.

NOTE 11 – INTEREST EXPENSE

During the year ended September 30, 2012, \$556,121 of interest has been directly charged to the various City functions. The charges are as follows: streets and public works \$48,083, public safety \$78,546, civic complex \$60,212, electric \$21,550, water \$132,738, and sewer \$214,992. No interest has been capitalized or indirectly charged.

NOTE 12 – INTER-FUND TRANSACTIONS

Inter-Fund Receivables and Payables

At September 30, 2012 there was an inter-fund balance owed to the General fund from the Airport fund in the amount of \$22,947. This payable represented a temporary loan until a grant reimbursement was received from Missouri Department of Transportation for expansion work at the airport. The Special Allocation Fund was owed a total of \$110,467 consisting of \$60,804 from the General Fund and \$49,663 from the Capital Projects Fund for those monies required to be transferred as incremental economic activity taxes under the tax increment financing development plan and include amounts for taxes accrued as of September 30, 2012.

Inter-fund Transfers

During the year ended September 30, 2012, 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	Special Allocation	\$ 181,156	TIF Projects
General	Airport	\$ 12,171	Operating Expenses
General	Airport	\$ 27,114	Capital Improvements
Special Allocation	Debt Service	\$ 240,675	Firestation Debt Payment
Capital Projects	Debt Service	\$ 444,994	COP Payment
Capital Projects	Special Allocation	\$ 223,447	TIF Projects
Capital Projects	Civic Complex	\$ 572,731	COP Payment
Capital Projects	Utility	\$ 256,137	Radionuclide Treatment Equipment Debt Payment
Capital Projects	Sewer	\$ 991,894	Treatment Plant Debt Payment
Sewer	General	\$ 4,000	Camera with flexible lens - cost sharing

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 13 – CONCENTRATION OF REVENUE

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

NOTE 14 – RISK MANAGEMENT

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

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

NOTE 15 – 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.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

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 rate October 1, 2011 through September 30, 2012 is 11.5% (general), 11.0% (police), and 12.9% (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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 15 – RETIREMENT PLAN - continued

Annual Pension Cost and Net Pension Obligation

For 2012, the City's annual pension cost and net pension obligation for the year were as follows:

Annual required contribution	\$ 571,850
Interest on net pension obligation	4,756
Adjustment to annual required contribution	<u>(3,977)</u>
Annual pension cost	572,629
Actual contributions	<u>527,818</u>
Increase (decrease) in net pension obligation	44,811
Net pension obligation beginning of year	<u>65,598</u>
Net pension obligation end of year	<u><u>\$ 110,409</u></u>

The annual required contribution (ARC) was determined as part of the February 28, 2009 and February 28, 2010 annual actuarial valuations using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2012 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 as of both February 28, 2009 and February 28, 2010 was 30 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
6/30/2010	\$ 448,433	100%	\$ 0
6/30/2011	\$ 580,511	89%	\$ 65,598
6/30/2012	\$ 572,629	92%	\$ 110,409

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	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2010	\$ 8,982,035	\$ 10,886,020	\$ 1,903,985	83%	\$ 4,609,368	41%
2/28/2011	\$ 9,977,343	\$ 11,877,606	\$ 1,900,263	84%	\$ 4,709,233	40%
2/29/2012	\$ 11,253,697	\$ 12,618,423	\$ 1,364,726	89%	\$ 4,663,662	29%

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 16 – TAX INCREMENT FINANCING AND COMMUNITY IMPROVEMENT DISTRICTS

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. On advice of counsel, and in view of case law since the plan was first adopted, the City amended its plan to clearly articulate the historic preservation grant program and to affirm that the fire station construction was included in the plan.

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

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

It is anticipated that the redevelopment will support the issuance of \$14,800,000 of TIF Debt. However, it is the intent of this redevelopment plan to declare an amount equal to 100% of all PILOTS as surplus on an annual basis and pass through that amount to the individual taxing entities. This plan anticipates a total of \$14,708,580 of PILOTS. The actual PILOTS over the 23 year projected life of the TIF District will depend on the amount of actual development that occurs and may be more than the projected \$20,000,000, but will be limited to the amount of actual PILOTS collected. As of September 30, 2012, no TIF bonds had been issued by the City of Farmington for this project.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 16 – TAX INCREMENT FINANCING AND COMMUNITY IMPROVEMENT DISTRICTS - continued

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 development 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 increment revenues generated by the Maple Valley Plaza Project and attributable to the project's development parcel.

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. The intent of the terminated agreement had been to declare only 60% of its related PILOTS as surplus. Thus, as of the termination of the agreement 100% of PILOTS are now declared surplus.

GPMVLC 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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 16 – TAX INCREMENT FINANCING AND COMMUNITY IMPROVEMENT DISTRICTS - continued

\$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%.

NOTE 17– 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-five year period with the final payment to be made December 31, 2025. The total amount of PILOTS outstanding as of September 30, 2012 is \$1,860,000. After twenty-five 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 18 – LONG-TERM CONTRACTS

The City is a member of the Missouri Joint Municipal Electric Utility Commission (MJMEUC). The City Administrator represents the City with respect to MJMEUC matters. MJMEUC manages a power pool known as Missouri Public Energy Pool #1 ("MoPEP"). The City is a member of MoPEP. All MoPEP members (including the City) have an agreement (the "MoPEP Agreement") with MJMEUC for the purchase of electric capacity and energy from MJMEUC. The MoPEP Agreement requires MJMEUC to supply the full energy requirements of the City and includes a procedure for the City to dedicate its capacity to MoPEP.

MoPEP operations are governed by a committee ("Pool Committee") consisting of one representative from each MoPEP member and was comprised of 35 members as of September 30, 2012. The Pool Committee is charged with setting rates for all services provided by MJMEUC to MoPEP members. These rates include recovery of all of MJMEUC's costs (the "Direct Costs") incurred in connection with acquiring, providing, arranging or financing the provision of full requirements service to MoPEP members. Such rates are based upon an annual budget and include, but are not limited to, all payments MJMEUC is required to make, or reserves or coverage MJMEUC is required to maintain, pursuant to any bond indenture, financing lease or loan agreement or other financial contract in order to procure, deliver, or finance resources intended to provide full requirements service, without regard to whether any particular resource is available to or used by any particular MoPEP member. Direct Costs also include amounts required to fund MoPEP capital and/or operating reserves as may be established from time to time by the Pool Committee.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 18 – LONG-TERM CONTRACTS - continued

The rates are established so as to charge each MoPEP member (including the City) its proportionate share of all costs associated with MJMEUC's performance under the MoPEP Agreement. Charges based on such rates are assessed and billed monthly. Rates are required to be established at least annually and adjusted to recognize variances between budgeted and actual costs at least every six months.

To meet the power and energy requirements of the City and the other MoPEP members, MJMEUC presently obtains power and energy from the following resources: (i) power purchased under long-term firm energy contracts, unit-contingent energy contracts and interruptible contracts; (ii) MJMEUC owned generation; (iii) member capacity; and (iv) spot market purchases. The City purchases its full energy requirements from MJMEUC pursuant to the MoPEP Agreement, but does not have any ownership interest in MJMEUC's resources.

In the event a MoPEP member would cancel the MoPEP Agreement, the member would remain responsible for its allocated share of MJMEUC's Direct Costs associated with all resource obligations entered into by MJMEUC for MoPEP prior to the notice of cancellation. MJMEUC would utilize or sell the member's allocated share of output in exchange for providing the member a credit or offset equal to the fair market value of the output up to the amount of the member's obligation. As a result, the member would have a financial obligation after cancellation in the event that the fair market value of the output is less than the member's allocated share of MJMEUC's Direct Costs with respect to the resource obligations at the time of cancellation.

Since the amount of the cancelling member's obligation would depend on MJMEUC's Direct Costs after cancellation and the fair market value of the output at such times in the future, the amount of the obligation is not reasonably determinable. Currently, the City has no plans or intentions to begin cancellation proceedings.

NOTE 19 – SUBSEQUENT EVENTS

Gross Receipts Tax

On January 9, 2013 the City of Farmington was one of over 250 defendant cities named in Kimble, et al v Jefferson City, et al, United States Western District Court Central Division, Case Number 2:13-cv-04007-NKL. The claim against the City of Farmington is \$48,929 for payment of gross receipts taxes related to that portion of cell phone usage allocable to user data plans from November 1, 2005 through September 30, 2010. The total amount of future revenue loss, if the claimants are successful in the case, is undeterminable.

Contract With the State of Missouri

A service contract with the State of Missouri Farmington Correctional Center, which included a service connection fee in the amount of \$1,300,000, went into effect as of October 1, 2012. As of September 30, 2012, this amount is shown as a deferred inflow of resources on the Statement of Financial Position. Expenses related to this contract and connection fee are accounted for in the Fiscal Year 2013 Budget of the Water Department resulting in an increase of approximately 81% to the department's operating expenses.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 20 – RELATED PARTY TRANSACTIONS

The Mayor of the City of Farmington holds a position on the Board of Directors at a financial institution with which the City conducts business. At September 30, 2012, the City had deposits of \$12,882,835 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. Renters are given the option of paying rent on a monthly, quarterly, semi-annual or annual basis. At September 30, 2012, the Mayor had a balance on account of \$300 for hangar space rental. As of the time of this report, the Mayor is current on all City accounts.

NOTE 21 – NET POSITION RESTRICTED BY ENABLING LEGISLATION

The amount of net position restricted by enabling legislation at September 30, 2012 is as follows:

<u>Fund</u>	<u>Net Position at September 30, 2012</u>
Capital Projects	\$ 1,529,047
Special Allocation	<u>1,057,537</u>
Total	<u>\$ 2,586,584</u>

REQUIRED SUPPLEMENTAL INFORMATION

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

Year Ended September 30, 2012

	Appropriated Budget Amounts		Actual	Positive (Negative)
	Original	Final		Variance
REVENUES				
Sales Tax	\$ 3,230,000	\$ 3,230,000	\$ 3,299,371	\$ 69,371
Real and Personal Property Tax	788,900	788,900	798,999	10,099
Grants & Donations	199,200	199,200	261,397	62,197
Charges for Services	570,500	619,200	693,040	73,840
Motor Fuel and Vehicle Tax	535,000	535,000	571,247	36,247
Utility, Gross Receipts, and Other Taxes	686,100	686,100	715,877	29,777
Interest Income	4,000	4,000	2,316	(1,684)
Administrative Pilot Payment	1,199,000	1,194,000	1,155,000	(39,000)
Gain/Loss on Asset	0	0	7,000	7,000
Other	5,600	5,600	21,796	16,196
Total Revenue	7,218,300	7,262,000	7,526,043	264,043
EXPENDITURES				
General Government				
Administration	1,374,200	1,156,700	1,196,713	(40,013)
Public Safety				
Police	2,146,500	2,149,700	2,134,877	14,823
Municipal Court	90,500	87,500	89,340	(1,840)
Fire	811,800	830,800	769,240	61,560
Streets and Public Works				
Street	762,000	746,050	711,476	34,574
Public Works	320,000	320,300	355,908	(35,608)
Maintenance	409,100	409,100	434,137	(25,037)
Culture and Recreation				
Park	617,200	618,700	663,678	(44,978)
Library	283,000	291,000	294,166	(3,166)
Capital Outlay	569,500	746,500	612,307	134,193
Total Expenses	7,383,800	7,356,350	7,261,842	94,508
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(165,500)	(94,350)	264,201	358,551
OTHER FINANCING SOURCES(USES)				
Transfers In	130,000	4,000	4,000	0
Transfers Out	(29,300)	(222,700)	(220,441)	2,259
Total Other Financing Sources(Uses)	100,700	(218,700)	(216,441)	2,259
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ (64,800)	\$ (313,050)	47,760	\$ 360,810
FUND BALANCE, OCTOBER 1, 2011			2,483,718	
FUND BALANCE, SEPTEMBER 30, 2012			\$ 2,531,478	

The accompanying notes are an integral part of the required supplementary information.

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

Year Ended September 30, 2012

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
REVENUES				
Interest Income	\$ 0	\$ 0	\$ 71,329	\$ 71,329
Total Revenue	0	0	71,329	71,329
EXPENDITURES				
Debt Service Interest and Fees	234,500	234,500	197,941	36,559
Debt Service Principal	544,900	544,900	544,840	60
Total Expenditures	779,400	779,400	742,781	36,619
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(779,400)	(779,400)	(671,452)	107,948
OTHER FINANCING SOURCES(USES)				
Transfer In	779,400	779,400	685,669	(93,731)
Transfer Out	0	0	0	0
Total Other Financing Sources (Uses)	779,400	779,400	685,669	(93,731)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	14,217	\$ 14,217
FUND BALANCE, OCTOBER 1, 2011			393,403	
FUND BALANCE, SEPTEMBER 30, 2012			\$ 407,620	

The accompanying notes are an integral part of the required supplementary information.

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

Year Ended September 30, 2012

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
REVENUES				
TIF Proceeds From Other Governments	\$ 512,000	\$ 527,000	\$ 431,866	\$ (95,134)
Interest Income	500	500	415	(85)
Other Income	0	15,000	11,067	(3,933)
Total Revenue	512,500	542,500	443,348	(99,152)
EXPENDITURES				
General Government	362,800	392,800	374,996	17,804
Capital Expenditures	0	0	0	0
Total Expenditures	362,800	392,800	374,996	17,804
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	149,700	149,700	68,352	(81,348)
OTHER FINANCING SOURCES(USES)				
Transfers In	390,000	390,000	404,603	14,603
Transfers Out	(390,500)	(360,500)	(240,675)	119,825
Total Other Financing Sources(Uses)	(500)	29,500	163,928	134,428
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 149,200	\$ 179,200	232,280	\$ 53,080
FUND BALANCE, OCTOBER 1, 2011			775,678	
FUND BALANCE, SEPTEMBER 30, 2012			\$ 1,007,958	

The accompanying notes are an integral part of the required supplementary information.

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

Year Ended September 30, 2012

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
REVENUES				
Transient Tax Income	\$ 175,000	\$ 175,000	\$ 190,516	\$ 15,516
Interest Income	0	0	25	25
Total Revenue	175,000	175,000	190,541	15,541
EXPENDITURES				
General Government	175,000	175,000	190,541	(15,541)
Total Expenditures	175,000	175,000	190,541	(15,541)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	0	0	0	0
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	0	\$ 0
FUND BALANCE, OCTOBER 1, 2011				
			0	
FUND BALANCE, SEPTEMBER 30, 2012				
			\$ 0	

The accompanying notes are an integral part of the required supplementary information.

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

Year Ended September 30, 2012

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
REVENUES				
Sales Tax	\$ 3,230,000	\$ 3,230,000	\$ 3,194,884	\$ (35,116)
Interest Income	5,000	5,000	3,724	(1,276)
Total Revenue	3,235,000	3,235,000	3,198,608	(36,392)
EXPENDITURES				
Capital Expenditures	597,700	758,200	544,274	213,926
Total Expenditures	597,700	758,200	544,274	213,926
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,637,300	2,476,800	2,654,334	177,534
OTHER FINANCING SOURCES(USES)				
Transfers In	50,000	20,000	0	(20,000)
Transfers Out	(2,687,300)	(2,496,800)	(2,489,203)	7,597
Total Other Financing Sources(Uses)	(2,637,300)	(2,476,800)	(2,489,203)	(12,403)
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	165,131	\$ 165,131
FUND BALANCE, OCTOBER 1, 2011			1,100,055	
FUND BALANCE, SEPTEMBER 30, 2012			\$ 1,265,186	

The accompanying notes are an integral part of the required supplementary information.

FEDERAL FINANCIAL ASSISTANCE

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2012

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 in internal control 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 Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
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*, was disclosed during the audit.
4. No instances of noncompliance in internal control over major federal award programs 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.
5. The auditors' report on compliance for the major federal award 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, Department of Justice-Edward Byrne Memorial Justice Assistance Grant Program, CFDA #16.738 and Department of Justice-Edward Byrne Memorial Justice Assistance Grant (Recovery-JAG) Program, CFDA #16.803.
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 EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Pass Through Grant Numbers</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Transportation:			
Pass Through Department of Public Safety			
Safety Grants	11-PT-02-96	20.600	\$ 5,477
	12-PT-02-093		
Safety Grants	12-OP-05-002	20.601	2,894
	11-K8-03-84		
Safety Grants	12-154-AL-056	20.607	4,168
Pass Through Missouri Department of Transportation			
Air Entitlement Funds	08-061C-4	20.106	153,259
	10-061C-1		
	11-061C-1		
Total Department of Transportation			165,798
Department of Justice			
Pass Through Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant Program-ARRA	2009-JAG-RA-074	16.803	29,748
	2009-JAG-RA-103		
Edward Byrne Memorial Justice Assistance Grant Program	2010-JAG-010	16.738	136,283
	2011-JAG-005		
Total Department of Justice			166,031
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	129,482
Nutrition Services Incentive Program		93.053	36,014
Total Department of Health and Human Services			165,496
Environmental Protection Agency			
Pass Through Missouri Department of Natural Resources			
Capitalization Grant for Drinking Water State Revolving Funds-ARRA	ER12-DWSA-MO401270	66.468	23,750
Department of Homeland Security			
Direct:			
FEMA Emergency Disaster Grant		97.036	3,632
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 524,707

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, 2012.

NOTE C - FEDERAL AWARDS PASSED ON TO SUBRECIPIENTS

\$166,031 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, 2012

FINDINGS-FINANCIAL STATEMENT AUDIT

2012-01 Municipal Court Procedures

Condition: There is a lack of internal controls in the Municipal Court operation. While the City makes entries on a monthly basis based on reports received from the court system, no reconciliation of the court fines receivable is being done on a monthly basis. No control is in place for the review and approval of adjustments.

Criteria: Procedures should be in place to reconcile court fines on a monthly basis.

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

Recommendation: We recommend that the City implement a system to reconcile the court receivables on a monthly basis, including the review and approval of all adjustments.

Response: The City concurs with this finding. Using the system generated reports, the Finance Department will generate a monthly trial balance roll forward for the Municipal Court. Upon completion of the report, the Finance Department will send to the judge a copy of the roll forward and have the judge approve a listing of cases where charges were dismissed.

2012-02 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 intergrates 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, 2012

PRIOR FINDINGS AND QUESTIONED COSTS

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.

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, 2012. However, the City has implemented software that integrates and produces reports for posting activity to the general ledger.

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.

Status of Finding: The City did not implement this system during the year ended September 30, 2012. However, the City has purchased and implemented software that will assist in this process.

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2012

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 of 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.

Status of Finding: The Finance Department implemented a system to monitor the compliance requirements of sub-recipients. The City completed a full review of the sub-recipient compliance requirements for the twelve months ending September 30, 2012.