

CITY OF FARMINGTON, MISSOURI

FINANCIAL STATEMENTS

September 30, 2013

CITY OF FARMINGTON, MISSOURI

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CITY OF FARMINGTON, MISSOURI

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Farmington, Missouri

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 7–23, 55–61, and 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington, Missouri's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2014, on our consideration of the City of Farmington, Missouri's internal control over financial reporting and 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, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Farmington, Missouri's internal control over financial reporting and compliance.



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February 19, 2014

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

To the Mayor and City Council
City of Farmington, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Farmington, Missouri, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Farmington, Missouri's basic financial statements and have issued our report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

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

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

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.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We 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 consider the deficiency described in the accompany schedule of findings and questioned costs to be significant deficiency, 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City Farmington, Missouri's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Farmington, Missouri's Response to Findings

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

Purpose of this Report

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


Thurman, Shinn & Company
Certified Public Accountants

Farmington, Missouri
February 19, 2014



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Mayor and City Council
City of Farmington, Missouri

Report on Compliance for Each Major Federal Program

We have audited the City of Farmington, Missouri's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Farmington, Missouri's major federal programs for the year ended September 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Farmington, Missouri's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Farmington, Missouri's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Farmington, Missouri complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the City of Farmington, Missouri is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Farmington, Missouri's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Thurman, Shinn & Company
Certified Public Accountants

Farmington, Missouri
February 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

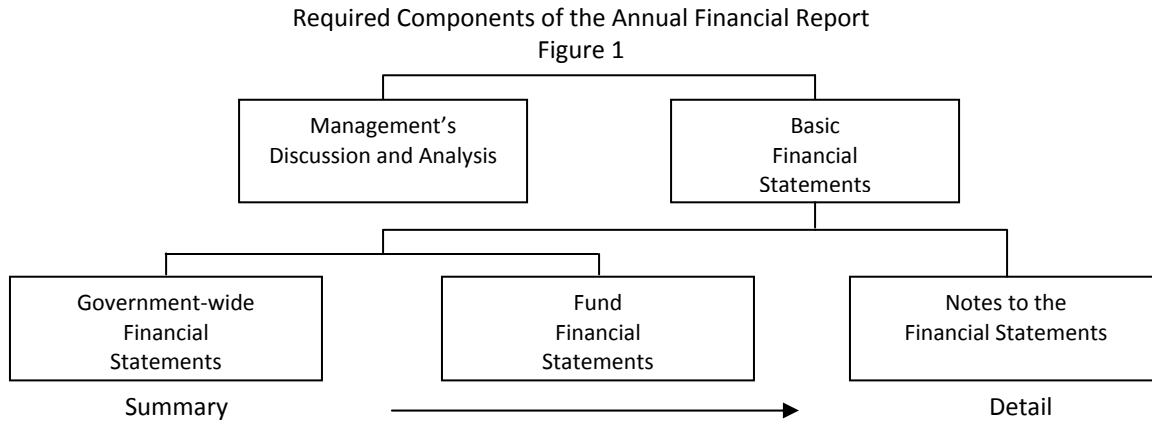
As management of the City of Farmington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2013. We encourage readers to review the information presented here in conjunction with additional information 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 \$78,310,227 (*net position = assets + deferred outflows - liabilities - deferred inflows*).
- The government's total change in net position due to activities during the fiscal year is an increase of \$2,305,569. This increase is representative of a \$1,489,685 increase in governmental activities and a \$815,884 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 \$4,838,519 with a net decrease of \$373,723 in fund balance. Approximately 47% of the governmental fund balances, or \$2,277,750, is available for spending at the government's discretion (*unrestricted fund balance*). This is down from \$2,482,560 (49%) the prior year. Of the unrestricted amount, only \$2,172,682 is considered unassigned. The remaining \$105,068 is committed or assigned by City Council and management.
- At the end of the fiscal year, the governmental funds full unreserved balance of \$2,172,682 was held in the General Fund. This amounts to approximately 32% of General Fund operating expenditures for the fiscal year (capital outlay and debt service principal not included).
- The City added two new funds to the financial statements for the year ending September 30, 2013. These are the Storm Water and Parks Tax Fund and the Transportation Tax Fund. The Storm Water and Parks Tax Fund is a special revenue fund utilized by the City to account for the revenue and expenses related to the City's 1/4 cent Storm Water and Parks Tax that went into effect April 1, 2013. The Transportation Tax Fund is a special revenue fund utilized by the City to account for the revenue and expenses related to the City's 1/4 cent Transportation Tax Fund which also went into effect April 1, 2013.
- The City of Farmington's total debt decreased by \$2,013,000 (12%) during the fiscal year. This decrease was the effect of a reduction in principal in current amounts due.
- The payment in lieu of taxes from the electric, water, and sewer departments was set at 5% resulting in a total payment amount of \$1,270,171. 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 24% increase over the prior fiscal year resulting in total grants and contributions of \$875,068. The increase is due to an increase in the amount of transportation funds received for expansion at the airport as well as an increase in public safety operating 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 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 24 to 25.

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 26 to 31.

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, along with pension and other information. The Notes can be found on pages 32 to 54 with the Required Supplemental Information on pages 55 to 62.

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 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

Management Discussion and Analysis

City of Farmington

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.

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.

Management Discussion and Analysis
City of Farmington

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table reflects a condensed comparative statement of net position for September 30, 2013 and 2012.

City of Farmington's Statement of Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current Assets	\$ 3,854,973	\$ 4,072,359	\$ 11,690,405	\$ 12,266,886	\$ 15,545,378	\$ 16,339,245
Other Assets	1,885,964	2,264,518	3,597,563	4,068,497	5,483,527	6,333,015
Capital assets (Net)	27,036,132	25,615,613	48,999,520	49,222,560	76,035,652	74,838,173
Total assets	32,777,069	31,952,490	64,287,488	65,557,943	97,064,557	97,510,433
Deferred Outflows	0	0	0	0	0	0
Current liabilities	1,834,090	1,681,643	4,705,935	3,572,799	6,540,025	5,254,442
Long-term liabilities	3,608,051	4,424,084	8,596,622	10,516,029	12,204,673	14,940,113
Total liabilities	5,442,141	6,105,727	13,302,557	14,088,828	18,744,698	20,194,555
Deferred Inflows	2,412	3,932	7,220	1,307,288	9,632	1,311,220
Net Position:						
Net investment in capital assets	22,612,048	20,630,589	40,728,604	39,709,584	63,340,652	60,340,173
Restricted	2,560,769	2,729,682	1,863,504	2,103,085	4,424,273	4,832,767
Unrestricted	2,159,699	2,482,560	8,385,603	8,349,158	10,545,302	10,831,718
Total net position	\$ 27,332,516	\$ 25,842,831	\$ 50,977,711	\$ 50,161,827	\$ 78,310,227	\$ 76,004,658

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, 2013, the assets and deferred outflows of the City of Farmington exceeded the liabilities and deferred inflows by \$78,310,227. This equates to a 3% (\$2,305,569) increase in net position as compared to September 30, 2012. This increase consisted of \$1,489,685 (65%) from governmental activities and \$815,884 (35%) from business-type activities. The increase in the governmental activities is driven by an increase in the net investment in capital assets.
- Comparatively, the City's net investment in capital assets is approximately 81% 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 increased by \$3,000,479. The City's governmental activities increase in net investment in capital assets of \$1,981,459 is primarily driven by the completion of an extensive amount of infrastructure work in the form of streets, curbs, gutters, sidewalks and storm water systems totaling \$1,916,099. The proprietary funds realized an increase of \$1,019,020. This increase is primarily due to three large capital projects in the proprietary funds; land acquisition adjacent to the airport, conversion of existing generators to meet the Compression Ignition Reciprocating Internal Combustion Engines emission reduction standards established by the Environmental Protection Agency, and improvements to the waste water system.
- An additional portion of the City's net position \$4,424,273, or 5.6%, represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of \$10,545,302 is unrestricted. The amount of unrestricted net position in relation to total net position is 13.5% compared to 14.3% in the prior year. Of the unrestricted net position, approximately 20% is attributable to governmental type activities and 80% is attributable to business type activities.

Management Discussion and Analysis
City of Farmington

Figure 3 shown below reflects the revenues and expenses for the City's activities for the years ended September 30, 2013 and September 30, 2012.

City of Farmington's Statement of Activities
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for goods and services	\$ 695,652	\$ 725,903	\$ 0	\$ 0	\$ 695,652	\$ 725,903
Electric Charges	0	0	19,016,989	18,790,495	19,016,989	18,790,495
Water Charges	0	0	4,393,816	2,568,814	4,393,816	2,568,814
Sewer Charges	0	0	2,032,085	2,234,229	2,032,085	2,234,229
Airport Charges	0	0	336,905	324,074	336,905	324,074
Civic Complex	0	0	1,356,759	1,382,046	1,356,759	1,382,046
Operating grants and contributions	183,470	261,397	238,192	263,578	421,662	524,975
Capital grants and contributions	36,842	0	416,564	178,496	453,406	178,496
General revenues:						
Sales taxes	6,508,385	6,494,255	0	0	6,508,385	6,494,255
Property taxes	830,591	798,999	0	0	830,591	798,999
Motor Fuel & Vehicle Tax	588,398	571,247	0	0	588,398	571,247
Gross Receipts Tax	517,242	550,947	0	0	517,242	550,947
Transient Guest Tax	203,047	190,516	0	0	203,047	190,516
Other taxes	165,919	164,930	0	0	165,919	164,930
Tax Increment Finance Proceeds	539,110	431,866	0	0	539,110	431,866
Interest Income	74,409	77,809	106,116	310,511	180,525	388,320
Administrative Pilot Payment	1,270,171	1,155,000	0	0	1,270,171	1,155,000
Insurance Proceeds	0	0	75,069	0	75,069	0
Gain/(Loss) on Disposal of Assets	18,243	7,000	-	(569,036)	18,243	(562,036)
Total revenues	11,631,479	11,429,869	27,972,495	25,483,207	39,603,974	36,913,076
Expenses:						
General government	1,847,731	1,790,281	0	0	1,847,731	1,790,281
Public safety	3,562,420	3,434,209	0	0	3,562,420	3,434,209
Streets and Public Works	2,299,111	2,195,153	0	0	2,299,111	2,195,153
Cultural and recreation	1,029,140	1,041,408	0	0	1,029,140	1,041,408
Electric	0	0	20,375,779	18,277,418	20,375,779	18,277,418
Water	0	0	2,787,972	2,256,488	2,787,972	2,256,488
Sewer	0	0	2,559,200	2,423,896	2,559,200	2,423,896
Airport	0	0	677,158	555,941	677,158	555,941
Civic Complex	0	0	2,159,894	2,068,269	2,159,894	2,068,269
Total expenses	8,738,402	8,461,051	28,560,003	25,582,012	37,298,405	34,043,063
Change in net position before transfers	2,893,077	2,968,818	(587,508)	(98,805)	2,305,569	2,870,013
Transfers	(1,403,392)	(1,856,047)	1,403,392	1,856,047	0	0
Change in net position	1,489,685	1,112,771	815,884	1,757,242	2,305,569	2,870,013
Net Position, September 30	25,842,831	24,730,060	50,161,827	48,520,367	76,004,658	73,250,427
Prior Period Adjustment	0	0	0	(115,782)	0	(115,782)
Restated Net Position, October 1	25,842,831	24,730,060	50,161,827	48,404,585	76,004,658	73,134,645
Net Position, September 30	\$ 27,332,516	\$ 25,842,831	\$ 50,977,711	\$ 50,161,827	\$ 78,310,227	\$ 76,004,658

Management Discussion and Analysis

City of Farmington

A review of the statement of activities reflects the following government-wide changes. These changes will be discussed in more detail in each respective section of the activity types.

- Total revenues increased 7.3%, or \$2,690,898. This increase is largely due to an increase in business-type activities revenue.
- Program revenues net of grants and contributions increased \$1,806,645 for 2013. This increase is the net effect of a decrease in governmental activities and an increase in business-type activities.
- General revenues net of gain or loss on assets and insurance proceeds realized an overall increase of \$57,308, or 0.5%, which is the net effect of an increase in governmental activities and a decrease in business-type activities.
- Overall expenses increased a total of \$3,255,342 or 9.6%. Governmental activities accounted for a \$277,351 increase in expenses while business-type activities had a \$2,977,991 increase.

Governmental Activities

Governmental activities increased the City's net position by \$2,893,077 before transfers. Key elements of this change are as follows:

Revenue

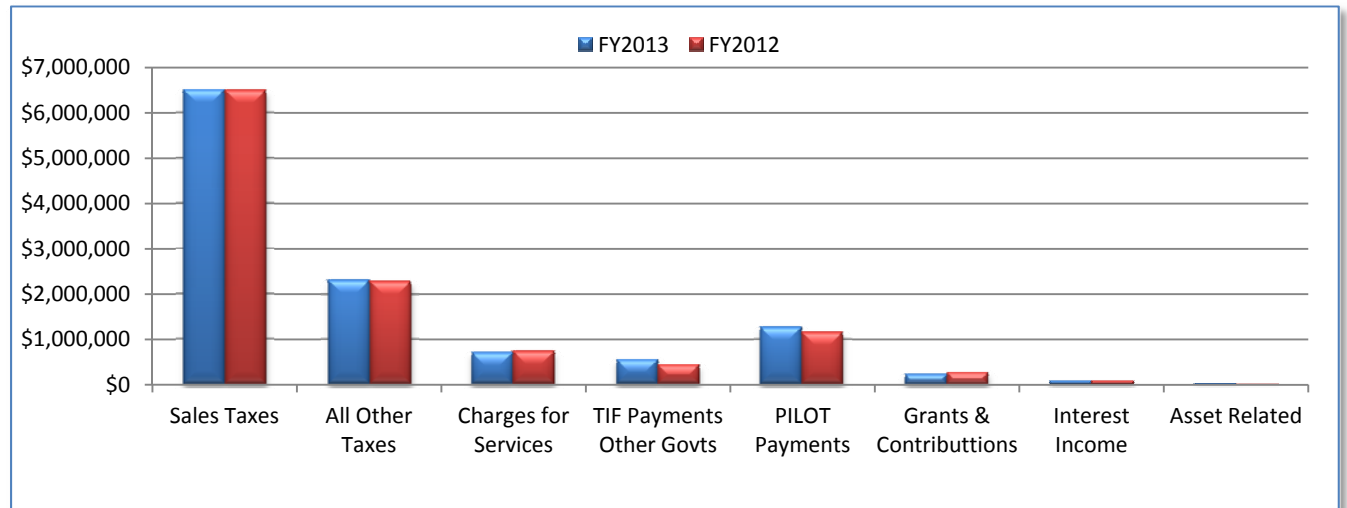
- Overall sales tax revenues remained substantially the same from the prior year amount with a minimal change of \$14,130, 0.2%. The City's general sales tax remained stable with an increase of only \$1,402. However, it should be noted that significant changes were seen in the make-up of the sales tax and its respective uses. A one-half cent capital sales tax, which was initially passed for construction and improvements to the East Wastewater Treatment Plant and construction and installation of Radionuclide treatment equipment on each of the City's wells, expired in April 2013. This tax was replaced by a one-quarter cent sales tax for storm water and parks and a one-quarter cent sales tax for transportation. Each of these new taxes went into effect in April 2013.
- Other tax revenue changes for the City included:
 - A 4.0% increase in property taxes, \$31,592
 - A 3.0% increase in motor fuel and vehicle taxes, \$17,151
 - A 6.1% decrease in gross receipts taxes, \$(33,705)
 - A 6.6% increase in transient guest tax receipts, \$12,531
 - A 0.6% increase in other taxes combined, \$989
- Administrative pilot payments increased by \$115,171 or 10% over the prior year. The pilot payments represent monies paid by the Utility and Sewer Funds to the General Fund in lieu of a gross receipts tax. The payments made represent 5% of defined revenue of the Utility and Sewer Funds.
- Contributions and operating grants were received in the public safety area in the amount of \$96,305 for the Mineral Area Drug Task Force, \$1,877 for prior year emergency management grant close-outs, \$6,960 for driving while intoxicated and hazardous moving vehicle enforcement efforts, and \$55,493 from the Farmington R-7 School District as a cost-sharing contribution in support of the school resource officer program.
- The streets and public works received capital grants in the amount of \$31,867 toward a sidewalk project and \$4,975 toward the close-out of a prior grant for water and sewer lines related to an economic development project.
- The culture and recreation program area received grants and contributions in the amount of \$22,834 that were utilized for operating costs.

Management Discussion and Analysis

City of Farmington

Figure 4 provides a prior year comparison of the revenues by category for the City of Farmington governmental activities.

General Revenues by Source
Figure 4



Expenses

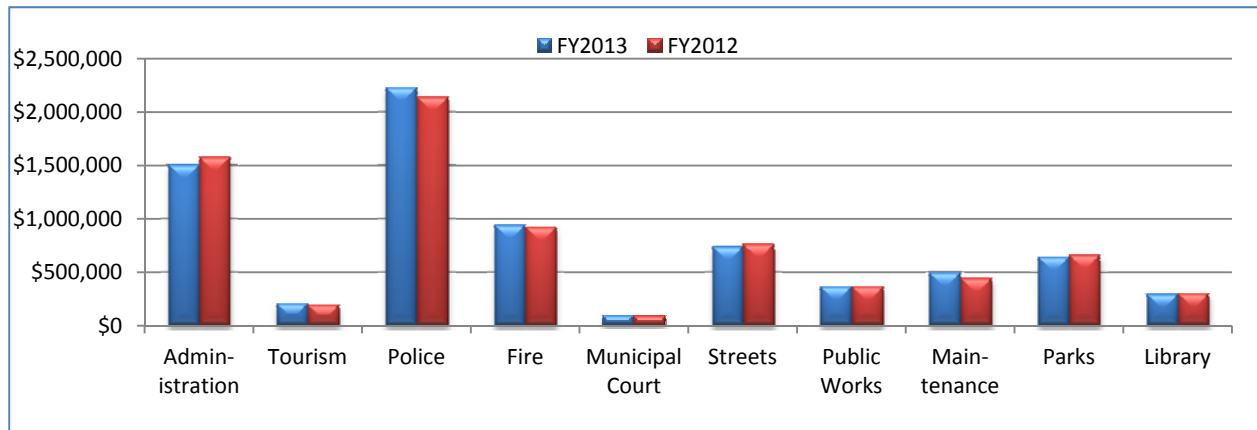
- Overall, there was an increase of \$277,351 or 3.2% in governmental activities operating expenses (debt service principal and or capital outlay not included). Changes consisted of:
 - A 3.2%, or \$57,450, increase was seen in general government expenses primarily due to engineering and architectural costs related to preplanning for future projects.
 - A 3.7%, or \$128,211, increase in public safety expenses primarily due to maintenance costs related to the emergency warning system, the replacement of turn-out gear for the Fire Department, and an increase in personnel related costs in the Police and Fire Department
 - A 4.7%, or \$103,958, increase in streets and public works primarily due to a significant increase in fleet maintenance material expenses, gas and oil expenses, and traffic control materials.
 - A 1.2% , or \$12,268, decrease in culture and recreation expenses primarily due to a decrease on the amount of money spent on the parks system maintenance and books and periodicals for the library
- Personnel related expenses as a whole for the governmental activities remained relatively flat with a 0.2% or \$8,643 increase.
- Governmental activities as a whole experienced a 14.6% or \$26,529 increase in gas and oil expenses. These expenses consist primarily of gasoline and diesel needed to operate equipment. A portion of the increase is due to the increase in the usage of equipment related to the substantial infrastructure projects completed.
- Substantial increases were seen in capital outlay in the governmental activities with more than double the amount spent as in the prior year, (FY2013 \$2,569,053 and FY2012 \$1,156,581). An overview of the projects will be discussed in more detail in the capital assets portion of this discussion and analysis.

Management Discussion and Analysis

City of Farmington

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 \$587,508 before transfers. Key elements of this change are as follows:

- A net loss in the Civic Complex Fund of \$564,786 before transfers primarily due to depreciation, decreased revenue at the Water Park due to a mild summer and inclement weather days, an increased cost of maintenance to the facilities, and increased food costs at the Senior Center.
- A net gain in the Airport Fund of \$151,411 before transfers primarily due to an increase in fuel sales and fuel sales margin and increased rental income.
- A net gain in the Utility Fund of \$234,218 before transfers which is the result of a combination of a net loss in the Electric Department of \$1,355,891 and a net gain in the Water Department of \$1,590,110. During the fiscal year, the City experienced significant increases in the cost of wholesale power (FY2013 \$17,111,983 and FY2012 \$14,972,248). As the City had unrestricted reserves in the Utility Fund in excess of the minimum target reserves set by policy, the City elected to delay imposing a rate increase on the residents and utilize the excess reserves to cover the wholesale power cost increase. The net gain in the Water Department was primarily due to the execution of a contract with Farmington Correctional Center in which the City received a \$1,300,000 connection fee for which the City would take over operation of the Center's water system and make improvements to the system including the construction and installation of radionuclide treatment systems.
- A net loss in the Sewer Fund of \$408,351 before transfers is primarily due to depreciation expense.

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

Management Discussion and Analysis

City of Farmington

General Fund

The General Fund is the chief operating fund of the City. As of September 30, 2013, the unassigned General Fund balance is \$2,172,682. As a financial management indicator, it is important to compare unassigned fund balance to total fund expenditures as a general measure of fund liquidity and for adherence to minimum reserve levels as set in the financial policy approved by the City Council. The unassigned fund balance represents approximately 29% of total General Fund expenditures (capital and debt included) which is well above the minimum balance of 13% set in the financial policy and the 17% target operating reserve established in the 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 \$392,484, \$34,130 of which is in prepaids and unspendable. The remaining balance is all 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, 2013 is \$818,787. This balance is down from the prior year because of the completion of some infrastructure projects that were delayed due to weather at the end of the prior year. The fund balance consists of: \$165,207 restricted for debt service, \$653,580 restricted for capital projects. 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, 2013 is \$913,773, of this balance \$667,660 is restricted for the Karsch-Downtown TIF District and \$223,767 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, 2013, 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 fund financial statements provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds equaled \$8,385,603 at September 30, 2013, less than 0.5% increase over September 30, 2012.

Airport Fund

The Airport Fund accounts for the activities of the Farmington Regional Airport. These activities include fuel sales, property and hangar rentals, personnel and operating expenses, and capital expansion. The airport offers a self-service fueling station, fuel truck service, pilot's lounge with showers, and complimentary vehicles for in-town use. The fund net position at September 30, 2013 is \$7,018,552. The amount that is unrestricted is \$135,494. This equates to 20% of operating expenses compared to 18% at September 30, 2012.

Utility Fund

The Utility Fund accounts for the activities of the electric utility and water utility. The Utility Fund net position at September 30, 2013 is \$19,132,994. Of this amount, \$7,722,009 is unrestricted, a \$91,419 or 1.2% decrease over the prior year and 33.5% of operating expenditures (capital outlay and debt principal payments not included) compared to 38% at September 30, 2012.

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, 2013 is \$14,251,168. There is no

Management Discussion and Analysis

City of Farmington

unrestricted net position in the Sewer Fund. All revenues generated are restricted for sewer use. Of the total net position, \$950,922 is held in restricted net position in comparison to \$1,156,323 the prior year.

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 \$10,574,997 at September 30, 2013, of which \$528,100 is unrestricted. This equates to 25% of operating expenses in comparison to 22% at September 30, 2012.

BUDGETARY HIGHLIGHTS

During the fiscal year, the City revised the budget on four 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 budget amendments major components and respective purposes included:

- Increase in power purchase costs in the Utility Fund in the amount of \$1,400,000 to cover increasing wholesale power costs over market forecast,
- Addition of \$500,000 capital expenses in the Capital Projects Fund for street and sidewalk infrastructure,
- Increase in \$375,000 capital expenses in the Sewer Fund for lining of sewer mains in the downtown area, included a corresponding transfer of \$375,000 from the Special Allocation Fund Downtown-Karsch TIF District to the Sewer Fund to cover the expenses,
- Removal of a \$271,000 transfer from the Capital Projects Fund to the Utility Fund, the transfer was initially intended to cover a portion of the costs related to the drilling of a well, but the decision was made to retain the money in the Capital Projects Fund to ensure adequate funds would be available for the final payment of the 2005 Series Certificates of Participation due in April 2014,
- An additional \$140,000 to the Civic Complex Fund from the General Fund in order to fully fund the reserves at policy levels,
- A decrease in sales tax revenue in the Capital Projects Fund to account for the accruals and termination of a capital sales tax which expired,
- An increase in General Fund administrative area engineering costs to account for preplanning engineering and architectural costs related to a proposed sales tax extension,
- An increase in the General Fund public safety area to cover uniform costs for the replacement of turn-out gear for the Fire Department,
- An increase in the General Fund public safety area to cover the completion of outfitting narrowband radios and an emergency storm siren,
- An increase in the General Fund public safety area for the purchase of a SRT/Surveillance vehicle,
- An increase in the General Fund culture and recreation area for capital improvements to the parks system,
- An increase in the General Fund streets and public works area to cover an increase in the vehicle and equipment repair and maintenance costs,
- An increase in engineering costs and insurance reimbursement revenues in the Airport Fund to account for extended work related to the closing of the underground fuel tanks at the airport in prior years,
- An increase in fuel sales revenue and fuel costs of goods sold in the Airport Fund to account for increased activity and sales,
- An increase in the Utility Fund costs of electric service supplies to cover additional costs related to current

Management Discussion and Analysis

City of Farmington

projects,

- An increase in capital expenditures in the Utility Fund to cover the purchase of water line maintenance equipment for the Water Department,
- Transfer adjustments between the General Fund, Capital Projects Fund, Storm Water and Parks Tax Fund, Transportation Tax Fund and Special Allocation Fund to account for tax increment transfers of accrued taxes to the Special Allocation Fund and the return transfers to the originating fund for capital projects contained within the TIF Districts,
- An increase in the Special Allocation Fund expenditures for downtown land and building improvements in efforts to maintain the downtown area and architecture,

Other adjustments to various accounts were made in response to actual realized revenue and expense trends as of mid-year.

PERFORMANCE TO BUDGET – GOVERNMENTAL FUNDS

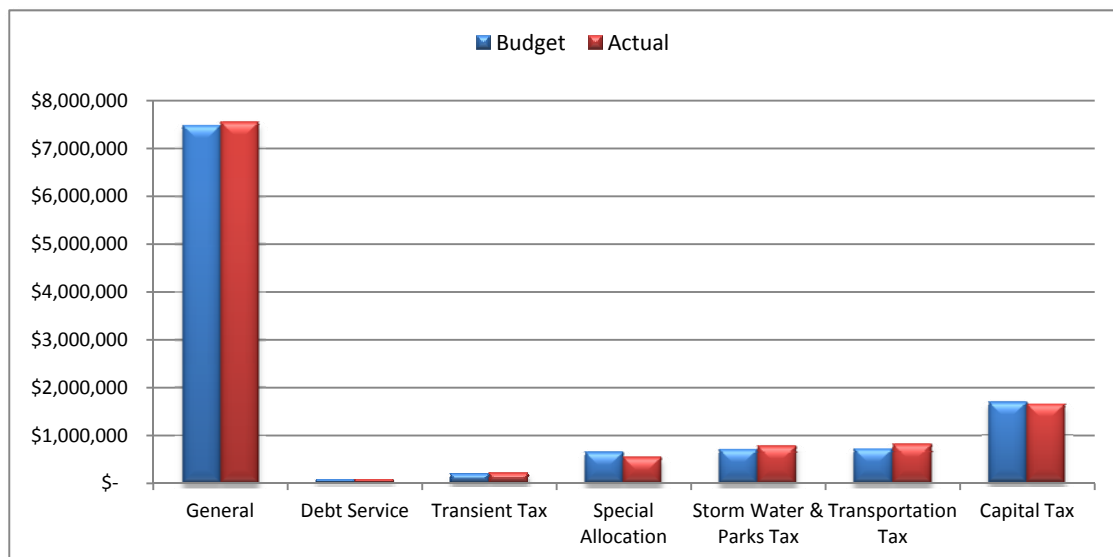
Revenues

Actual revenues in the Governmental Funds as a whole were \$92,845 or approximately 0.8% above budget.

- The General Fund revenues were \$66,626 or 0.9% above budget. Offsetting increases and decreases were seen throughout the revenue categories in the general fund, but the largest increase was seen in charges for services. This increase was driven by increases in building and zoning permits, storm water detention impact fees, and court fines.
- The Special Allocation Fund actual fell \$107,401 or 16.6% below budgeted amounts. This is largely due to the withholding of incremental revenues by the St. Francois County Ambulance District.
- The Storm Water and Parks Tax Fund tax revenues were \$71,982 or 10% above the budgeted amount. This money is generated strictly from sales tax. This tax was not in effect the full fiscal year.
- The Transportation Tax Fund revenues were \$103,820 or 14.6% above budget. The variance is a combination of additional tax revenues over estimated revenues based on a partial year tax and the addition of revenues from a capital grant that the City received.
- The Capital Projects Fund revenues were \$45,410 or 2.7% below budgeted revenues. The variance is due to a decrease in estimated receipts.

Governmental Fund Revenues - Budget to Actual

Figure 6



Management Discussion and Analysis

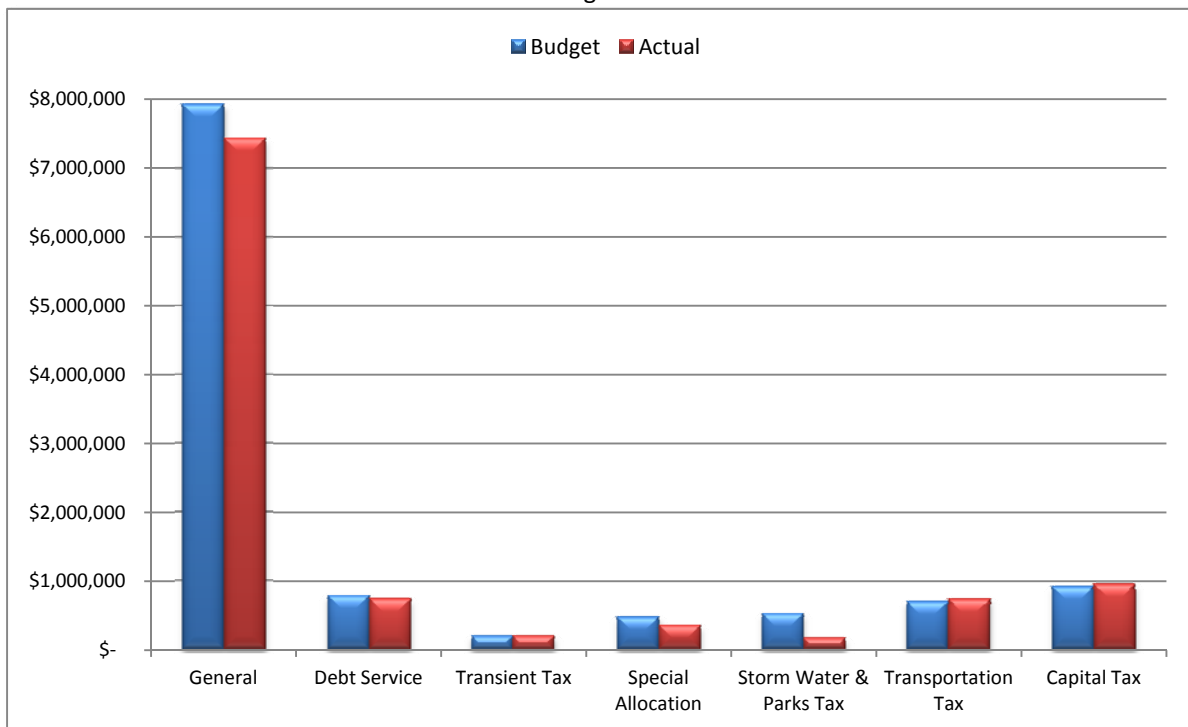
City of Farmington

Expenditures

Actual expenditures in the Governmental Funds as a whole were \$953,440 or approximately 8.3% below budget. Following is a description by fund of the variances.

- The General Fund expenditures were \$491,807 or 6.2% below budget. This balance was made up of a combination of cost savings and deferred costs. The following variances by function were realized: general government \$5,550 below budget, public safety \$56,078 below budget, streets and public works \$115,725 below budget, culture and recreation \$17,408 below budget, and \$297,046 in deferred capital outlay.
- The Debt Service Fund was \$45,963 below budget. This variance is related to the interest and fees on the Fire Station debt.
- Expenditures of the Special Allocation Fund were \$126,063 or 26.1% below budget, \$23,731 of this is related to deferred capital expenditures while the balance is largely representative of the funds for which expenditures were withheld based on the withholding of revenues previously mentioned.
- The Storm Water and Parks Tax Fund tax expenditures were \$359,086 or 68.5% below the budgeted amount. This was due to the deferring of capital projects.
- The Transportation Tax Fund expenditures were \$35,643 or 5.1% above budget. The variance is representative of the monies spent on a capital project related to the aforementioned capital grant revenue.
- The Capital Projects Fund expenditures were \$30,773 or 3.3% above budget. The variance was related to capital projects and was covered by a decrease in transfers from the Capital Projects Fund to other funds.

Governmental Fund Expenses - Budget to Actual
Figure 7



Management Discussion and Analysis
City of Farmington

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, totals \$63,340,652 (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 \$3,000,479 or 5% increase over the prior year primarily due to a combination of the addition of significant capital assets in addition to the reduction of principal on debt.

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	
	2013	2012	2013	2012	2013	2012
Land and Land Improvements	\$ 2,412,845	\$ 2,412,846	\$ 745,816	\$ 745,816	\$ 3,158,661	\$ 3,158,662
Buildings and system	7,348,568	6,868,787	18,407,363	18,026,023	25,755,931	24,894,810
Equipment, Furniture, and Vehicles	5,419,515	5,179,125	2,797,036	2,663,851	8,216,551	7,842,976
Infrastructure	25,908,507	23,864,964	52,783,303	51,289,363	78,691,810	75,154,327
Construction in progress	0	280,737	266,973	274,634	266,973	555,371
Total	41,089,435	38,606,459	75,000,491	72,999,687	116,089,926	111,606,146
Less Accumulated Depreciation	14,053,303	12,990,846	26,000,971	23,777,127	40,054,274	36,767,973
Total	<u>\$ 27,036,132</u>	<u>\$ 25,615,613</u>	<u>\$ 48,999,520</u>	<u>\$ 49,222,560</u>	<u>\$ 76,035,652</u>	<u>\$ 74,838,173</u>

Major capital asset transactions during the year include the following:

Governmental Funds

A total of \$2,852,932 in assets was placed in service in the governmental funds during the year ended September 30, 2013. These assets consist of:

- General government related asset additions of \$81,127 for office renovations and new roof at City Hall.
- Public safety asset additions of \$163,920 for 2 new police patrol vehicles, a police surveillance vehicle, a fire department vehicle, and public safety rescue and forensic equipment.
- Street and public works asset additions totaling \$2,499,052 which consist of \$398,655 for maintenance facility improvements, \$84,357 for backhoe equipment, \$99,941 for vehicles, and \$1,916,099 for streets, sidewalks, curbs and guttering infrastructure projects.
- Cultural and recreation asset additions of \$108,833 which consist of improvements at the sports complex.
- Two public safety patrol vehicles with an original combined cost of \$42,342 were disposed. The vehicles were fully depreciated at the time of disposal.
- One street and public works backhoe was traded in on the purchase of the new backhoe. The traded backhoe had an original cost of \$49,250 and depreciation of \$27,088. The City received \$27,000 in trade-in resulting in the reduction to the book cost of the new backhoe by \$4,838.
- One street and public works vehicle with an original cost of \$16,237 was disposed. The vehicle was fully depreciated at the time of disposal.

Management Discussion and Analysis

City of Farmington

Proprietary Funds

A total of \$2,008,465 in assets was placed in service in the proprietary funds during the year ended September 30, 2013; an additional \$184,656 was booked to construction in progress. These assets consist of:

- The completion of \$134,848 in facility improvements at the Civic Center and Centene Center was added to the Civic Complex Fund.
- Land acquisition at the Airport in the amount of \$438,739 was added to the Airport Fund.
- Engineering costs in the amount of \$2,800 related to the airport runway project were placed into construction in progress.
- A GIS mapping system for the Electric Department in the amount of \$13,121 was added to the Utility Fund and the previous GIS mapping system costs added to construction in progress in the amount of \$44,553 was placed in service.
- A construction in progress project to bury utility lines along Liberty Street was added to the Utility Fund in the amount of \$18,538.
- Conversion project costs in the amount of \$420,720, for the addition of catalytic converters to the Electric Department generators, were added to the Utility Fund.
- Facilities expansion and renovation in the amount of \$210,665 in the Utility Fund and of \$47,968 in the Sewer Fund were added.
- Water system improvements of \$53,070 were added to the Utility Fund, with an additional \$163,318 of construction in progress costs for the rehabilitation of an above ground water storage tank and the construction of a new well.
- Water line maintenance equipment in the amount of \$59,099 was added to the Utility Fund.
- Three vehicles with a combined cost of \$61,946 were added to the Sewer Fund.
- Equipment additions in the amount of \$30,732 for sewer monitoring equipment and \$54,263 for improvements to treatment plant equipment were made to the Sewer Fund.
- An addition of \$438,741 in project costs was made to the Sewer Fund infrastructure for the lining of sewer mains in the downtown area.

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 \$2,013,000 (12%) during the fiscal year. An overview of the debt held by the City is shown below.

Revenue Bonds, Certificates of Participation and Capital Leases
Figure 9

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenue bonds	\$ 0	\$ 0	\$ 2,660,000	\$ 2,960,000	\$ 2,660,000	\$ 2,960,000
Due to State of Missouri	0	0	1,871,069	2,081,069	1,871,069	2,081,069
Certificates of Participation	759,084	1,152,024	5,610,916	6,552,976	6,370,000	7,705,000
Capital Leases	3,665,000	3,833,000	0	0	3,665,000	3,833,000
Total	\$ 4,424,084	\$ 4,985,024	\$ 10,141,985	\$ 11,594,045	\$ 14,566,069	\$ 16,579,069

Management Discussion and Analysis

City of Farmington

The debt currently held by the City includes:

- Revenue Bonds for sewer system construction in the amount of \$2,660,000 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 \$1,871,069.
- A balance of \$1,710,000 remains on a capital improvement certificates of participation issue (series 2005) payable from available revenues in the fiscal year. The governmental funds account for \$759,084 of the balance, and the proprietary funds account for \$950,916 of the balance.
- A balance of \$4,660,000 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, 2013 include \$3,800,000 for the water system and \$860,000 for the sewer system.
- The City has a capital lease for the construction of the fire station with a balance of \$3,665,000 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 2013 was \$191,982,247, resulting in a legal general obligation debt margin for the City of Farmington of \$38,396,449 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-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 debt can be found in Notes 7, 8 and 9 in the Notes to the Financial Statements.

Management Discussion and Analysis

City of Farmington

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. Beginning with Fiscal Year 2012, the City has realized a slight increase in sales tax receipts. However, the City remains 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 is unchanged for the upcoming fiscal year at \$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% from January of 2009 until August 2011 when this average fell below the 10% mark. As of September 2013, the Farmington Micropolitan Area is currently experiencing an unemployment rate at 7.1% on a downward trend.

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. During Fiscal Year 2013, the City experienced a 13% increase in wholesale power rates. The Environmental Protection Agency continues to propose legislation and regulations that may negatively impact future forecasts. 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.

Business Environment. During Fiscal Year 2013, the City continued to see new retail stores and restaurants locate in Farmington. Both a nationally known restaurant and a regional leader in the grocery market are scheduled to open new facilities in the City within the next 12 months. The City anticipates a third retailer to complete a deal during the first quarter to site a new store in Farmington. This retailer is also a regional leader in its industry. A 2015 opening is anticipated for the store.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2014

Governmental Activities

Budgeted revenues in the governmental funds (net of transfers and lease proceeds) are expected to increase by 1.1% to approximately \$11.760 million. This increase is due to a combined increase in anticipated sales tax revenue and an increase in the amount of PILOTs (based on increased revenue in the proprietary funds). In November 2013, residents passed a capital sales tax extension which will provide for the construction of a new municipal library, police station improvements, water park improvements, and park system improvements. A 5% percent payment in lieu of taxes is budgeted.

Personnel expenses are budgeted to increase 4.4% due to a combination of increases in benefit costs and employee pay increases. General Fund operating and personnel expenditures combined (debt and capital not included) are expected to rise a total of 7.2% to approximately \$7.3 million based on economic conditions. The budget includes the implementation of a revised pay plan for hourly employees with a City-wide average increase of 2%. Governmental funds capital investment is budgeted at \$1.6 million compared to approximately \$2.6 million in the preceding fiscal year.

Management Discussion and Analysis

City of Farmington

Business-Type Activities

Budgeted revenues (grants and contributions not included) in the proprietary funds are expected to increase to approximately \$27.9 million, a 3% increase over the prior year actual. The Civic Complex Fund is expected to see a 12% increase in revenues to \$1.5 million due largely to membership rate increases and a full season of the water park prior to inclement days removed. The Utility Fund revenue is expected to increase to \$23.7 million, an increase of 1.3%. However, Fiscal Year 2013 included a one-time connection fee receipt of \$1.3 million, when this fee is removed the increase is approximately 7%. This increase is largely driven by an increase in electric rates to be imposed at the end of February 2014. The Sewer Fund is budgeted to have revenues of approximately \$2.4 million, 17%. This increase is due to the combination of an increase in rates that went into effect in October 2013 and a full-year of revenue under an operating contract with the Farmington Correctional Center for a waste macerator.

Budgeted expenditures (debt and capital not included) in the Civic Complex Fund are expected to increase approximately 10% over prior year actual. This increase is split between personnel and standard operating costs. A portion of the increase is the operating and personnel costs necessary to run the water park with no inclement weather days. Budgeted expenditures in the Utility Fund are expected to increase approximately 6% from the prior year actual. The increase is primarily driven by an increase in electric wholesale power costs and non-capital equipment costs for the operation of the water system at the Farmington Correctional Center. Power purchase costs increased 13% in Fiscal Year 2013 and are forecasted to increase an additional 3% in Fiscal Year 2014 over Fiscal Year 2013. Sewer Fund expenditures are budgeted to decrease approximately 5% from the prior year actual. This decrease is largely due to one-time expenditures in the prior year related to the agreement with the Farmington Correctional Facility mentioned previously.

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, 2013

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash & Cash Equivalents	\$ 1,424,816	\$ 6,958,512	\$ 8,383,328
Investments	0	0	0
Receivables (Net)	1,829,699	3,306,741	5,136,440
Prepaid Expenses	43,691	74,154	117,845
Prepaid Interest	34,130	0	34,130
Due From Other Funds	522,637	0	522,637
Inventory	0	1,350,998	1,350,998
Total	3,854,973	11,690,405	15,545,378
Noncurrent Assets			
Restricted Assets:			
Cash & Cash Equivalents	1,507,376	529,557	2,036,933
Investments	378,588	3,068,006	3,446,594
Capital Assets (Net)			
Non Depreciable	1,962,942	1,045,794	3,008,736
Depreciable	25,073,190	47,953,726	73,026,916
Total	28,922,096	52,597,083	81,519,179
TOTAL ASSETS	32,777,069	64,287,488	97,064,557
<u>DEFERRED OUTFLOW OF RESOURCES</u>	0	0	0
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	321,055	1,963,273	2,284,328
Accrued Salaries	235,762	128,652	364,414
Accrued Interest	13,590	78,970	92,560
Taxes Payable	31,341	93,689	125,030
Protested Taxes	58,224	0	58,224
Due to Other Funds	171,924	350,713	522,637
Builder's Deposits	0	6,771	6,771
Other Payable	68,110	154,451	222,561
Current Portion of Long-Term Debt	934,084	1,929,416	2,863,500
Total	1,834,090	4,705,935	6,540,025
Long-Term Liabilities			
Customer Deposits Payable	0	384,053	384,053
Net Pension Obligation	118,051	0	118,051
Due to State of Missouri - State Revolving Fund	0	1,871,069	1,871,069
Bonds Payable	0	2,660,000	2,660,000
Capital Leases Payable	4,424,084	5,610,916	10,035,000
Less Current Maturities	(934,084)	(1,929,416)	(2,863,500)
Total	3,608,051	8,596,622	12,204,673
TOTAL LIABILITIES	5,442,141	13,302,557	18,744,698
<u>DEFERRED INFLOW OF RESOURCES</u>			
Administrative Expense Deposits	2,412	0	2,412
Civic Center Facility Use Deposits	0	7,220	7,220
TOTAL DEFERRED INFLOW OF RESOURCES	2,412	7,220	9,632
<u>NET POSITION</u>			
Net Investment in Capital Assets	22,612,048	40,728,604	63,340,652
Restricted for:			
Debt Service	523,561	1,333,947	1,857,508
Capital Projects	1,067,960	0	1,067,960
Nonspendable	77,821	0	77,821
Sewer	0	529,557	529,557
Tax Increment Finance District Projects	891,427	0	891,427
Unrestricted	2,159,699	8,385,603	10,545,302
TOTAL NET POSITION	\$ 27,332,516	\$ 50,977,711	\$ 78,310,227

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

CITY OF FARMINGTON, MISSOURI
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

FUNCTIONS/PROGRAMS	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
Governmental Activities:							
General Government	\$ 1,847,731	\$ 27,303	\$ 0	\$ 0	\$ (1,820,428)	\$ 0	\$ (1,820,428)
Public Safety	3,562,420	513,693	0	160,636	(2,888,091)	0	(2,888,091)
Streets and Public Works	2,299,111	72,715	36,842	0	(2,189,554)	0	(2,189,554)
Culture and Recreation	1,029,140	81,941	0	22,834	(924,365)	0	(924,365)
Total Governmental Activities	<u>8,738,402</u>	<u>695,652</u>	<u>36,842</u>	<u>183,470</u>	<u>(7,822,438)</u>	<u>0</u>	<u>(7,822,438)</u>
Business-Type Activities:							
Airport	677,158	336,905	416,564	20	0	76,331	76,331
Electric	20,375,779	19,016,989	0	0	0	(1,358,790)	(1,358,790)
Water	2,787,972	4,393,816	0	0	0	1,605,844	1,605,844
Sewer	2,559,200	2,032,085	0	0	0	(527,115)	(527,115)
Civic Complex	2,159,894	1,356,759	0	238,172	0	(564,963)	(564,963)
Total Business-Type Activities	<u>28,560,003</u>	<u>27,136,554</u>	<u>416,564</u>	<u>238,192</u>	<u>0</u>	<u>(768,693)</u>	<u>(768,693)</u>
Total City Functions/Programs	<u>\$ 37,298,405</u>	<u>\$ 27,832,206</u>	<u>\$ 453,406</u>	<u>\$ 421,662</u>	<u>(7,822,438)</u>	<u>(768,693)</u>	<u>(8,591,131)</u>
General Revenues:							
Taxes							
Sales Taxes					6,508,385	0	6,508,385
Real and Personal Property Taxes					830,591	0	830,591
Motor Fuel and Vehicle Taxes					588,398	0	588,398
Gross Receipts Taxes					517,242	0	517,242
Transient Guest Tax (Hotel/Motel)					203,047	0	203,047
Utility and Other Taxes					165,919	0	165,919
TIF Proceeds					539,110	0	539,110
Administrative Pilot Payment					1,270,171	0	1,270,171
Interest Income					74,409	106,116	180,525
Insurance Proceeds					0	75,069	75,069
Gain/Loss on Disposal of Asset					18,243	0	18,243
Transfers					<u>(1,403,392)</u>	<u>1,403,392</u>	<u>0</u>
Total General Revenues and Transfers					<u>9,312,123</u>	<u>1,584,577</u>	<u>10,896,700</u>
Change in Net Position for the Year					1,489,685	815,884	2,305,569
Net Position - October 1, 2012					25,842,831	50,161,827	76,004,658
Net Position - September 30, 2013					<u>\$ 27,332,516</u>	<u>\$ 50,977,711</u>	<u>\$ 78,310,227</u>

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

CITY OF FARMINGTON, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2013

	Major Funds							Total
	General	Debt	Capital	Special	Transient	Storm Water	Transportation	Governmental
	Fund	Service	Projects	Allocation	Tax	& Parks	Tax	Funds
	Fund	Fund	Fund	Fund	Fund	Tax Fund	Fund	
ASSETS								
Cash & Cash Equivalents	\$ 1,424,816	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,424,816
Investments	0	0	0	0	0	0	0	0
Accounts Receivable (net)	990,339	0	265,143	265,600	27,408	124,671	156,538	1,829,699
Prepaid Expenses	43,691	0	0	0	0	0	0	43,691
Prepaid Interest	0	34,130	0	0	0	0	0	34,130
Due From Other Funds	420,537	0	0	102,100	0	0	0	522,637
Restricted Assets:								
Cash & Investments	12,000	371,944	588,510	546,073	117,610	246,306	3,521	1,885,964
Total Assets	2,891,383	406,074	853,653	913,773	145,018	370,977	160,059	5,740,937
DEFERRED OUTFLOWS OF RESOURCES								
	0	0	0	0	0	0	0	0
TOTAL ASSETS & DEFERRED OUTFLOWS	\$ 2,891,383	\$ 406,074	\$ 853,653	\$ 913,773	\$ 145,018	\$ 370,977	\$ 160,059	\$ 5,740,937
LIABILITIES								
Accounts Payable	\$ 125,655	\$ 0	\$ 9,316	\$ 19,934	\$ 145,018	\$ 1,159	\$ 19,973	\$ 321,055
Accrued Salaries	235,762	0	0	0	0	0	0	235,762
Accrued Interest Payable	0	13,590	0	0	0	0	0	13,590
Taxes Payable	31,341	0	0	0	0	0	0	31,341
Protested Taxes	58,224	0	0	0	0	0	0	58,224
Due to Other Funds	50,850	0	25,550	0	0	12,850	82,674	171,924
Other Liabilities	68,110	0	0	0	0	0	0	68,110
Total Liabilities	569,942	13,590	34,866	19,934	145,018	14,009	102,647	900,006
DEFERRED INFLOWS OF RESOURCES								
Administrative Expense Deposits	0	0	0	2,412	0	0	0	2,412
Total Deferred Inflows of Resources	0	0	0	2,412	0	0	0	2,412
FUND BALANCE								
Nonspendable								
Prepays	43,691	34,130	0	0	0	0	0	77,821
Restricted								
Debt Service	0	5,369	165,207	0	0	0	0	170,576
Debt Service Reserve	0	352,985	0	0	0	0	0	352,985
Capital Projects	0	0	653,580	0	0	356,968	57,412	1,067,960
Karsch-Downtown TIF District	0	0	0	667,660	0	0	0	667,660
Highway 67 TIF District	0	0	0	223,767	0	0	0	223,767
Committed								
Acquisition/Improvement of Public Spaces	40,096	0	0	0	0	0	0	40,096
Assigned								
Other Purposes	24,455	0	0	0	0	0	0	24,455
Wilson Rozier Ballpark	40,517	0	0	0	0	0	0	40,517
Unassigned	2,172,682	0	0	0	0	0	0	2,172,682
Total Fund Balances	2,321,441	392,484	818,787	891,427	0	356,968	57,412	4,838,519
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 2,891,383	\$ 406,074	\$ 853,653	\$ 913,773	\$ 145,018	\$ 370,977	\$ 160,059	\$ 5,740,937
Amounts reported for governmental activities in the statement of net position are different because:								
Total Fund Balance - Total Governmental Funds								\$ 4,838,519
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.								
Governmental capital assets				41,089,435				
Less accumulated depreciation				(14,053,303)				
								27,036,132
Long-term liabilities, including leases payable, loans payable, and net pension obligation are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds.								
Net Pension Obligation				(118,051)				
Leases Payable				(4,424,084)				
								(4,542,135)
Net Position of Governmental Activities								\$ 27,332,516

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, 2013

	Major Funds							Total
	General Fund	Debt Service Fund	Capital Projects Fund	Special Allocation Fund	Transient Tax Fund	Storm Water & Parks Tax Fund	Transportation Tax Fund	Governmental Funds
REVENUES								
Sales Tax	\$ 3,300,773	\$ 0	\$ 1,643,729	\$ 0	\$ 0	\$ 781,941	\$ 781,942	\$ 6,508,385
Real and Personal Property Tax	830,591	0	0	0	0	0	0	830,591
Grants and Donations	183,470	0	4,975	0	0	0	31,867	220,312
Charges for Services	681,160	0	0	0	0	0	0	681,160
Motor Fuel and Vehicle Tax	588,398	0	0	0	0	0	0	588,398
Utility, Gross Receipts & Other Taxes	683,161	0	0	0	0	0	0	683,161
Transient Guest (Hotel/Motel) Tax	0	0	0	0	203,047	0	0	203,047
Interest Income	1,022	72,165	886	268	16	41	11	74,409
TIF Proceeds From Other Governments	0	0	0	539,110	0	0	0	539,110
Administrative Pilot Payment	1,270,171	0	0	0	0	0	0	1,270,171
Other	12,971	0	0	1,521	0	0	0	14,492
Total Operating Revenues	7,551,717	72,165	1,649,590	540,899	203,063	781,982	813,820	11,613,236
EXPENSES								
General Government								
Administration	1,190,450	0	0	307,468	0	0	0	1,497,918
Tourism	0	0	0	0	203,063	0	0	203,063
Public Safety								
Police	2,223,088	0	0	0	0	0	0	2,223,088
Municipal Court	93,659	0	0	0	0	0	0	93,659
Fire	794,625	142,778	0	0	0	0	0	937,403
Streets and Public Works								
Street	699,220	35,119	0	0	0	0	0	734,339
Public Works	358,870	0	0	0	0	0	0	358,870
Maintenance	487,085	0	0	0	0	0	0	487,085
Culture and Recreation								
Park	646,251	0	0	0	0	0	0	646,251
Library	290,141	0	0	0	0	0	0	290,141
Capital Outlay	652,954	0	961,273	50,269	0	164,914	739,643	2,569,053
Debt Service-Principal	0	560,940	0	0	0	0	0	560,940
Total Expenses	7,436,343	738,837	961,273	357,737	203,063	164,914	739,643	10,601,810
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	115,374	(666,672)	688,317	183,162	0	617,068	74,177	1,011,426
OTHER FINANCING SOURCES (USES)								
Transfer In	195,485	651,536	58,469	453,916	0	17,150	65,000	1,441,556
Transfer Out	(539,139)	0	(1,193,185)	(753,609)	0	(277,250)	(81,765)	(2,844,948)
Gain/Loss on Asset	18,243	0	0	0	0	0	0	18,243
Total Other Financing Sources And Uses	(325,411)	651,536	(1,134,716)	(299,693)	0	(260,100)	(16,765)	(1,385,149)
NET CHANGE IN FUND BALANCES	(210,037)	(15,136)	(446,399)	(116,531)	0	356,968	57,412	(373,723)
FUND BALANCES - OCTOBER 1, 2012	2,531,478	407,620	1,265,186	1,007,958	0	0	0	5,212,242
FUND BALANCES - SEPTEMBER 30, 2013	\$ 2,321,441	\$ 392,484	\$ 818,787	\$ 891,427	\$ 0	\$ 356,968	\$ 57,412	\$ 4,838,519

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, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (373,723)
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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	2,569,053
Depreciation	(1,148,534)

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	(58,979)
Accumulated Depreciation	58,979

Governmental funds do not expense the Net Pension Obligation at the time it is realized. However, in the Government-Wide Statement of Activities, the full amount of the net pension obligation is accounted for as a General Government expense.

(118,051)

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.

560,940

Change in Net Position of Governmental Activities as Reported on the Statement of Activities

\$ 1,489,685

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

September 30, 2013

	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>ASSETS</u>					
Current Assets:					
Cash & Cash Equivalents	\$ 573,788	\$ 25,900	\$ 6,358,824	\$ 0	\$ 6,958,512
Accounts Receivable	35,711	422,152	2,595,304	253,574	3,306,741
Prepays	4,899	786	63,051	5,418	74,154
Due From Other Funds	0	0	0	0	0
Inventory	0	44,487	1,288,664	17,847	1,350,998
Total Current	614,398	493,325	10,305,843	276,839	11,690,405
NonCurrent Assets:					
Restricted Assets:					
Cash & Cash Equivalents	0	0	0	529,557	529,557
Investments	459,072	0	453,510	2,155,424	3,068,006
Advances To Other Funds	0	0	0	0	0
Capital Assets (Net of Accumulated Depreciation)	10,538,741	6,883,058	14,757,475	16,820,246	48,999,520
Total NonCurrent	10,997,813	6,883,058	15,210,985	19,505,227	52,597,083
Total Assets	11,612,211	7,376,383	25,516,828	19,782,066	64,287,488
<u>DEFERRED OUTFLOW OF RESOURCES</u>	0	0	0	0	0
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	11,612,211	7,376,383	25,516,828	19,782,066	64,287,488
<u>LIABILITIES</u>					
Current Liabilities:					
Accounts Payable	20,925	4,488	1,906,602	31,258	1,963,273
Accrued Salaries	32,123	1,788	61,020	33,721	128,652
Accrued Interest	17,019	0	50,502	11,449	78,970
Taxes Payable	4,402	164	84,619	4,504	93,689
Due to Other Funds	0	350,713	0	0	350,713
Builder's Deposits	0	0	6,771	0	6,771
Other Liabilities	4,609	678	90,267	58,897	154,451
Current Portion of Long-Term Debt	950,916	0	588,500	390,000	1,929,416
Total	1,029,994	357,831	2,788,281	529,829	4,705,935
Long-Term Liabilities:					
Customer Deposits Payable	0	0	384,053	0	384,053
Due to State of Missouri - State Revolving Fund	0	0	0	1,871,069	1,871,069
Revenue Bonds Payable	0	0	0	2,660,000	2,660,000
Capital Leases Payable	950,916	0	3,800,000	860,000	5,610,916
Less Current Maturities	(950,916)	0	(588,500)	(390,000)	(1,929,416)
Total	0	0	3,595,553	5,001,069	8,596,622
Total Liabilities	1,029,994	357,831	6,383,834	5,530,898	13,302,557
<u>DEFERRED INFLOW OF RESOURCES</u>					
Civic Center Facility Use Deposits	7,220	0	0	0	7,220
Total Deferred Inflow of Resources	7,220	0	0	0	7,220
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	1,037,214	357,831	6,383,834	5,530,898	13,309,777
<u>NET POSITION</u>					
Net Investment in Capital Assets	9,587,825	6,883,058	10,957,475	13,300,246	40,728,604
Restricted	459,072	0	453,510	950,922	1,863,504
Unrestricted	528,100	135,494	7,722,009	0	8,385,603
TOTAL NET POSITION	\$ 10,574,997	\$ 7,018,552	\$ 19,132,994	\$ 14,251,168	\$ 50,977,711

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2013

	Enterprise Funds				
	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>OPERATING REVENUES</u>					
Charges for Services:					
Civic Complex Charges	\$ 1,356,759	\$ 0	\$ 0	\$ 0	\$ 1,356,759
Airport Charges	0	336,905	0	0	336,905
Electric Charges	0	0	19,016,989	0	19,016,989
Water Charges	0	0	4,393,816	0	4,393,816
Sewer Charges	0	0	0	2,032,085	2,032,085
Total Operating Revenues	1,356,759	336,905	23,410,805	2,032,085	27,136,554
<u>OPERATING EXPENSES</u>					
Civic Complex Expenses	1,700,447	0	0	0	1,700,447
Airport Expenses	0	411,634	0	0	411,634
Electric Expenses	0	0	19,891,143	0	19,891,143
Water Expenses	0	0	2,288,957	0	2,288,957
Sewer Expenses	0	0	0	1,670,020	1,670,020
Depreciation	415,469	265,524	857,719	685,132	2,223,844
Total Operating Expenses	2,115,916	677,158	23,037,819	2,355,152	28,186,045
OPERATING INCOME (LOSS)	(759,157)	(340,253)	372,986	(323,067)	(1,049,491)
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Grant Income	157,804	416,564	0	0	574,368
Contributions	80,368	20	0	0	80,388
Interest and Investment Income	177	11	(12,836)	118,764	106,116
Bond Fees	(1,133)	0	(410)	(15,935)	(17,478)
Interest Expense	(42,845)	0	(125,522)	(188,113)	(356,480)
Insurance Proceeds and Settlements	0	75,069	0	0	75,069
Gain or Loss on Disposal of Assets	0	0	0	0	0
Total Nonoperating Revenues (Expenses)	194,371	491,664	(138,768)	(85,284)	461,983
NET INCOME (LOSS) BEFORE TRANSFERS	(564,786)	151,411	234,218	(408,351)	(587,508)
<u>TRANSFERS</u>					
Transfers In	859,863	60,028	0	483,501	1,403,392
Transfers Out	0	0	0	0	0
Total Transfers	859,863	60,028	0	483,501	1,403,392
CHANGE IN NET POSITION	295,077	211,439	234,218	75,150	815,884
NET POSITION - OCTOBER 1, 2012	10,279,920	6,807,113	18,898,776	14,176,018	50,161,827
NET POSITION - SEPTEMBER 30, 2013	<u>\$ 10,574,997</u>	<u>\$ 7,018,552</u>	<u>\$ 19,132,994</u>	<u>\$ 14,251,168</u>	<u>\$ 50,977,711</u>

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended September 30, 2013

	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 1,348,815	\$ 284,061	\$ 23,391,904	\$ 2,056,309	\$ 27,081,089
Payments to Suppliers	(885,811)	(403,329)	(20,578,908)	(1,061,479)	(22,929,527)
Payments to Employees	(839,118)	(39,619)	(1,315,548)	(654,118)	(2,848,403)
Net Cash Provided (Used) By Operating Activities	(376,114)	(158,887)	1,497,448	340,712	1,303,159
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers In	859,863	60,028	0	483,501	1,403,392
Transfers Out	0	0	0	0	0
Contributions and Operating Grants	80,368	20	0	0	80,388
Insurance Proceeds, Settlements and Other	0	75,069	0	0	75,069
Deferred Inflow of Revenue - FCC Contract	0	0	(1,300,000)	0	(1,300,000)
Loans To/From Other Funds	0	327,765	0	0	327,765
Net Cash Provided (Used) For Noncapital Financing Activities	940,231	462,882	(1,300,000)	483,501	586,614
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Capital Grant Receipts	157,804	138,417	23,751	0	319,972
Principal Payments on Long-Term Debt	(492,060)	0	(370,000)	(590,000)	(1,452,060)
Interest Paid	(42,845)	0	(125,522)	(188,113)	(356,480)
Bond Fees	(1,133)	0	(410)	(15,935)	(17,478)
Sale of Capital Assets	0	0	0	0	0
Acquisition of Capital Assets	(134,848)	(441,539)	(838,734)	(585,683)	(2,000,804)
Net Cash Used For Capital & Related Financing Activities	(513,082)	(303,122)	(1,310,915)	(1,379,731)	(3,506,850)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemption of Investments	8,803	0	25,378	433,466	467,647
Investment Earnings	177	11	(12,836)	118,764	106,116
Net Cash Provided by Investing Activities	8,980	11	12,542	552,230	573,763
Net Change in Cash and Cash Equivalents	60,015	884	(1,100,925)	(3,288)	(1,043,314)
Cash and Cash Equivalent Balances at October 1, 2012	513,773	25,016	7,459,749	532,845	8,531,383
Cash and Cash Equivalent Balances at September 30, 2013	\$ 573,788	\$ 25,900	\$ 6,358,824	\$ 529,557	\$ 7,488,069
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (759,157)	\$ (340,253)	\$ 372,986	\$ (323,067)	\$ (1,049,491)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation Expenses	415,469	265,524	857,719	685,132	\$ 2,223,844
Changes in Assets and Liabilities					
Accounts Receivable	(7,944)	(52,844)	(22,924)	24,225	\$ (59,487)
Prepays	(165)	171	(1,004)	(336)	\$ (1,334)
Inventory	0	(32,130)	(121,119)	4,923	\$ (148,326)
Accounts Payable & Other Payables	(26,866)	573	408,915	(49,770)	\$ 332,852
Customer and Builder Deposits Payable	0	0	4,023	0	\$ 4,023
Accrued Salaries and Compensated Absences	2,549	72	(1,148)	(395)	\$ 1,078
Net Cash Provided (Used) by Operating Activities	<u>\$ (376,114)</u>	<u>\$ (158,887)</u>	<u>\$ 1,497,448</u>	<u>\$ 340,712</u>	<u>\$ 1,303,159</u>

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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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.

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. While the City could report the Debt Service Fund and Storm Water and Parks Tax Fund in aggregate under non-major funds, City officials believe it is important that the financial information be presented separately. This determination was made for the Debt Service Fund for users of the financial statement such as rating agencies and bond issuers. The decision to report the Storm Water and Parks Tax Fund separately is to provide transparency and accountability to the tax payers.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The City utilizes the following funds:

Governmental Type 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.

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.

Capital Projects Fund - The Capital Projects Fund accounts 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.

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.

Storm Water and Parks Tax Fund - The Storm Water and Parks Tax Fund is used to account for the financial resources derived from the Storm Water and Parks Tax. Storm Water and Parks taxes are to be used solely for the purpose of storm water control and the operation of local parks.

Transportation Tax Fund - The Transportation Tax Fund is used to account for the financial resources derived from the Transportation Tax. Transportation taxes are to be used solely for the purpose of the construction, reconstruction, repair and maintenance of streets within the City and construction, reconstructions, repair and maintenance of the municipal airport.

Proprietary Type Funds:

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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

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, 2013.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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, 2013.

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

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Post Employment Benefits

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

Long-Term Debt

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 administrative and legal costs related to tax increment financing districts and prepayment of facility deposits at the Civic Center for future.

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, Storm Water and Parks Tax Fund, Transportation Tax 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's highest level of decision making authority, the City Council via the passing of an ordinance.
- *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.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The fund balance classifications for the governmental funds at September 30, 2013 are:

FUND BALANCES	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	SPECIAL ALLOCATION FUND	TRANSIENT GUEST TAX FUND	STORM WATER & PARKS TAX FUND	TRANSPOR- TATION TAX FUND	TOTAL GOVERNMENTAL FUNDS
Non-spendable								
Prepays	\$ 43,691	\$ 34,130	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 77,821
Restricted								
Debt Service	0	5,369	165,207	0	0	0	0	170,576
Debt Service Reserve	0	352,985	0	0	0	0	0	352,985
Capital Projects	0	0	653,580	0	0	356,968	57,412	1,067,960
Karsch-Downtown TIF District	0	0	0	667,660	0	0	0	667,660
Highway 67 TIF District	0	0	0	223,767	0	0	0	223,767
	0	358,354	818,787	891,427	0	356,968	57,412	2,482,948
Committed								
Improvement of Public Spaces	40,096	0	0	0	0	0	0	40,096
Assigned								
Other Purposes	24,455	0	0	0	0	0	0	24,455
Wilson Rozier Ball park	40,517	0	0	0	0	0	0	40,517
	64,972	0	0	0	0	0	0	64,972
Unassigned	2,172,682	0	0	0	0	0	0	2,172,682
Total Fund Balances	\$ 2,321,441	\$ 392,484	\$ 818,787	\$ 891,427	\$ 0	\$ 356,968	\$ 57,412	\$ 4,838,519

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, 2013, the City had a total of \$63,340,652 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, 2013, the City's restricted net position of \$4,424,273 is comprised of debt service, capital projects, sewer and tax increment financing. Governmental activities restricted net position at September 30, 2013, is \$2,560,769. Restricted net position of the business-type activities totals \$1,863,504.
- **Unrestricted net position** is the residual and represents amounts available for future operations or distribution. Government wide unrestricted net position at September 30, 2013 is \$10,545,302.

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, 2013 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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

- Actual expenditures of the Transient Guest Tax Fund exceeded budgeted expenditures by \$3,063, or approximately 1.5% over budget. This excess expenditure is driven and offset by a corresponding amount of tax revenue and interest income in excess of budgeted revenue.
- Actual expenditures of the Transportation Tax Fund exceeded budgeted expenditures by \$35,643, or approximately 5.1%. This excess expenditure is for capital projects and is covered by \$31,867 in grant proceeds and a \$71,942 increase in tax revenues.
- Actual expenditures of the Capital Projects Fund exceeded budget by \$30,773, or approximately 3.3%. This excess expenditure is for capital projects and is covered by a decrease in the amount of funds transferred to other funds.

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 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, 2013 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*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*; and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The City will adopt and implement these statements at the required time.

I. Adoption of New Accounting Pronouncements

No new accounting pronouncements have been adopted with the presentation of the financial statements contained herein.

J. Prior Period Adjustments

No prior period adjustments were made in connection with the financial statements contained herein.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 2 – CASH AND INVESTMENTS - continued

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

Missouri statutes require that the depository institution must collateralize all funds on deposit in financial institutions with appropriate securities to the extent not provided by FDIC insurance. At September 30, 2013, 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, 2013, the bank balances in the City's checking accounts were \$10,448,292. Pledged securities held by the bank in the City's name had a market value of \$12,153,652.

Total cash and investments, as of September 30, 2013, consist of the following:

Type	Amount	Reconciliation to the Statement of Net Position	
Cash on Hand	\$ 1,164	Current Assets	
Deposits	9,935,465	Cash and Cash Equivalents	\$ 8,383,328
Money Market Accounts	484,479	Investments	0
Certificates of Deposit	17,000		8,383,328
Money Market Mutual Funds	896,064	Noncurrent Assets	
Bond Mutual Funds	3,142	Cash and Cash Equivalents - Restricted	2,036,933
State & Local Government Bonds	395	Investments	3,446,594
Guaranteed Investment Contract	1,996,929		5,483,527
United States Treasury Notes	532,217		
Total Deposits and Investments	<u>\$ 13,866,855</u>		<u>\$ 13,866,855</u>

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, 2013 are as follows:

Type	Fair Value	Investment Maturities			Credit Quality Rating
		Less Than One Year	1-5 Years	6-10 years	
Certificates of Deposit	\$ 17,000	\$ 17,000	\$ 0	\$ 0	N/A
Money Market Mutual Funds	896,064	896,064	0	0	AAAm
Bond Mutual Funds	3,142	0	0	3,142	AA+
State & Local Government Bonds*	395	0	0	395	AAA
Guaranteed Investment Contracts**	1,996,929	0	0	1,996,929	AA+
United States Treasury Notes***	532,217	0	0	532,217	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.

** The State & Local Government Bonds are guaranteed by the United States Treasury.

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

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 2 – CASH AND INVESTMENTS - continued

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, 2013, the balance of the restricted assets is \$5,483,527.

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 \$.4448 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.

NOTE 4 – ACCOUNTS RECEIVABLE AND PAYABLE

Accounts Receivable

In the governmental funds, the majority of the accounts receivable balance consists 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, hotel taxes, prefunded flexible spending account monies due from employees, and grant payments. These receivables are recorded when they are both measurable and available.

In the proprietary funds, the accounts receivable balance consists primarily of amounts due from customers for utility services provided and Missouri Department of Transportation grant reimbursements. Utility receivables are recorded when the earning process is complete and services have been provided. Other receivables due include Civic Center memberships, insurance reimbursement for ground storage fuel tank remediation work performed at the airport, payments for airport fuel purchases, and airport rentals/leases.

The City considers these accounts receivable fully collectible, except for the municipal court and property tax receivables. The bad debt allowance for uncollectible balances of \$318,555 consists of municipal court receivables uncollectible allowance of \$307,172 and property tax receivables uncollectible allowance balance of \$11,383.

Accounts receivable balances at September 30, 2013 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	\$ 648,699	\$ 10,002	\$ 650,193	\$ 1,308,894	\$ 318,555	\$ 990,339
Capital Projects	0	14,291	250,852	265,143	0	265,143
TIF Districts	265,600	0	0	265,600	0	265,600
Transient Tax	0	0	27,408	27,408	0	27,408
Storm Water and Parks Tax	0	0	124,671	124,671	0	124,671
Transportation Tax	0	31,867	124,671	156,538	0	156,538
Total Governmental Activities	<u>\$ 914,299</u>	<u>\$ 56,160</u>	<u>\$ 1,177,795</u>	<u>\$ 2,148,254</u>	<u>\$ 318,555</u>	<u>\$ 1,829,699</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 4 – ACCOUNTS RECEIVABLE AND PAYABLE - continued

	Accounts <u>Receivable</u>	Grants <u>Receivable</u>	Taxes <u>Receivable</u>	Total <u>Receivable</u>	Bad Debt <u>Allowance</u>	<u>Net Receivable</u>
Business-Type Activities:						
Civic Complex	\$ 35,711	\$ 0	\$ 0	\$ 35,711	\$ 0	\$ 35,711
Airport	54,944	367,208	0	422,152	0	422,152
Water and Electric Utility	2,595,304	0	0	2,595,304	0	2,595,304
Sewer Utility	253,574	0	0	253,574	0	253,574
Total Business-Type Activities	<u>\$ 2,939,533</u>	<u>\$ 367,208</u>	<u>\$ 0</u>	<u>\$ 3,306,741</u>	<u>\$ 0</u>	<u>\$ 3,306,741</u>

Accounts Payable

Accounts payable balances consist of amounts due to and expected to be paid within one year. The payable balances include payments to vendors, employees, and interest. Items for which service or product has been received, but a vendor invoice had not yet been received at September 30, 2013 have been accrued. Governmental activities reported accounts payable in the amount of \$321,055. Business-type activities reported accounts payable in the amount of \$1,963,273, of which \$1,327,633 was due to a single vendor for the electric utility's purchase of power for the month of September.

Payable balances at September 30, 2013 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	\$ 125,655	\$ 235,762	\$ 0	\$ 31,341	\$ 392,758
Debt Service	0	0	13,590	0	13,590
Capital Projects	9,316	0	0	0	9,316
TIF Districts	19,934	0	0	0	19,934
Transient Tax	145,018	0	0	0	145,018
Storm Water & Parks Tax	1,159	0	0	0	1,159
Transportation Tax	19,973	0	0	0	19,973
Total Governmental Activities	<u>\$ 321,055</u>	<u>\$ 235,762</u>	<u>\$ 13,590</u>	<u>\$ 31,341</u>	<u>\$ 601,748</u>

	Payments to <u>Vendors</u>	Payments to <u>Employees</u>	Interest <u>Payable</u>	Taxes <u>Payable</u>	Total <u>Payables</u>
Business-Type Activities:					
Civic Complex	\$ 20,925	\$ 32,123	\$ 17,019	\$ 4,402	\$ 74,469
Airport	4,488	1,788	0	164	6,440
Water and Electric Utility	1,906,602	61,020	50,502	84,619	2,102,743
Sewer Utility	31,258	33,721	11,449	4,504	80,932
Total Business-Type Activities	<u>\$ 1,963,273</u>	<u>\$ 128,652</u>	<u>\$ 78,970</u>	<u>\$ 93,689</u>	<u>\$ 2,264,584</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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 \$3,372,378. Depreciation is charged to the following functions in the statement of activities as follows:

Function/Program	Current Depreciation		Total Current Depreciation
	Governmental Activities	Business-Type Activities	
General Government	\$ 28,699	\$ 0	\$ 28,699
Public Safety	308,270	0	308,270
Streets and Public Works	718,817	0	718,817
Culture and Recreation	92,748	0	92,748
Civic Complex	0	415,469	415,469
Airport	0	265,524	265,524
Electric	0	484,636	484,636
Water	0	373,083	373,083
Sewer	0	685,132	685,132
Total	<u>\$ 1,148,534</u>	<u>\$ 2,223,844</u>	<u>\$ 3,372,378</u>

Changes in fixed assets for the governmental activities are as follows for the year ended September 30, 2013:

	Balance, September 30, 2012	Additions	Deletions	Balance, September 30, 2013
<u>Governmental Activities:</u>				
Capital Assets, not depreciated				
Land	\$ 1,962,942	\$ 0	\$ 0	\$ 1,962,942
Construction in Progress	<u>280,737</u>	<u>0</u>	<u>280,737</u>	<u>0</u>
Total Capital Assets, not depreciated	2,243,679	0	280,737	1,962,942
Capital Assets, depreciated				
Buildings	6,868,787	479,781	0	7,348,568
Land Improvements	449,903	0	0	449,903
Infrastructure	23,864,964	2,043,545	0	25,908,509
Furniture, Machinery & Equip	1,714,992	80,521	400	1,795,113
Vehicles	<u>3,464,133</u>	<u>218,846</u>	<u>58,579</u>	<u>3,624,400</u>
	36,362,779	2,822,693	58,979	39,126,493
Less Accumulated Depreciation	<u>12,990,846</u>	<u>1,148,534</u>	<u>86,077</u>	<u>14,053,303</u>
Total Capital Assets, depreciated	<u>23,371,933</u>	<u>1,674,159</u>	<u>-27,098</u>	<u>25,073,190</u>
Capital Assets, Net	<u>\$ 25,615,612</u>	<u>\$ 1,674,159</u>	<u>\$ 253,639</u>	<u>\$ 27,036,132</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 5 – CAPITAL ASSETS-continued

Changes in fixed assets for the proprietary activities are as follows for the year ended September 30, 2013:

	Balance, September 30, 2012	Additions	Deletions	Balance, September 30, 2013
<u>Proprietary Activities:</u>				
Capital Assets, not depreciated				
Land	\$ 745,816	\$ 33,005	\$ 0	\$ 778,821
Construction in Progress	274,634	184,656	192,317	266,973
Total Capital Assets, not depreciated	1,020,450	217,661	192,317	1,045,794
Capital Assets, depreciated				
Buildings	18,026,023	381,340	0	18,407,363
Infrastructure	51,289,363	1,493,940	33,005	52,750,298
Furniture, Machinery & Equip	1,614,530	71,239	0	1,685,769
Vehicles	1,049,321	61,946	0	1,111,267
	71,979,237	2,008,465	33,005	73,954,697
Less Accumulated Depreciation	23,777,127	2,223,844	0	26,000,971
Total Capital Assets, depreciated	48,202,110	(215,379)	33,005	47,953,726
Capital Assets, Net	\$ 49,222,560	\$ 2,282	\$ 225,322	\$ 48,999,520

NOTE 6 – OPERATING LEASES

The City has an operating lease with Mineral Area Regional Medical Center on the land at the Senior Center. The lease term is from October, 2009 through September, 2029. The annual rent payment in the amount of \$1,200 was paid by the Civic Complex Fund. The future minimum rental payments for subsequent years are as follows:

<u>Year Ended September 30</u>	<u>Total</u>
2014	\$ 1,200
2015	1,200
2016	1,200
2017	1,200
2018	1,200
2019-2023	6,000
2024-2028	6,000
2029	1,200
Total Minimum Rental Payments	\$ 19,200

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 7 – CAPITAL LEASES - continued

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, 2013 is \$1,710,000. Of this amount \$759,084 is governmental debt and \$950,916 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, 2013 is \$3,665,000.

Business-Type Activities:

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

Certificates of Participation

The City entered into a capital lease to finance water system and wastewater treatment system capital improvements through a financing arrangement with The Bank of New York Mellon Trust Company. Under the arrangement, the bank issued certificates of participation in the amount of \$5,555,000 on May 3, 2011 to finance the improvements. The scheduled lease payments the City makes to the bank will be used to pay the debt service on these certificates. The lease payments are due in installments ranging from \$445,000 to \$1,135,000 and begin in May 2012 and continue through May 2021. Interest is payable each November 1st and May 1st at 2.0% to 3.8%. The balance at September 30, 2013 is \$4,660,000, of which \$3,800,000 is allocated to the water fund and \$860,000 is allocated to the sewer fund.

Future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013 are as follows:

<u>Year Ended September 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
2014	1,098,205	1,593,636	2,691,841
2015	310,642	614,483	925,125
2016	312,344	612,608	924,952
2017	309,361	613,058	922,419
2018	313,552	613,058	926,610
2019-2023	1,557,438	2,413,093	3,970,531
2024-2028	1,560,885	0	1,560,885
2029	286,499	0	286,499
Total Minimum Lease Payments	5,748,926	6,459,936	12,208,862
Less Amount Representing Interest & Fees	1,324,842	849,020	2,173,862
Present Value of Minimum Lease Payments	<u>\$ 4,424,084</u>	<u>\$ 5,610,916</u>	<u>\$ 10,035,000</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 7 – CAPITAL LEASES - continued

Assets under capital leases at September 30, 2013 include:

<u>Asset Type</u>	<u>Asset Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and Buildings	\$ 9,094,253	\$ 1,607,823	\$ 7,486,430
Machinery and Equipment	5,475,305	477,396	4,997,909
Infrastructure	3,062,995	709,923	2,353,072
Total Assets Under Capital Lease	\$ 17,632,553	\$ 2,795,142	\$ 14,837,411

NOTE 8 – LONG-TERM DEBT

No long-term debt exists for the City's governmental activities. The business type activities long-term debt consists of revenue bonds and related reserve account debt in the Sewer Fund.

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, 2013 was \$2,660,000. 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>
2014	305,000	150,288
2015	315,000	132,750
2016	320,000	114,638
2017	330,000	97,038
2018	335,000	78,723
2019-2021	1,055,000	120,953
Total	<u>\$ 2,660,000</u>	<u>\$ 694,388</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 2013, the City paid back \$210,000. As of September 30, 2013, the balance due to the State is \$1,871,069. If the City makes all of the related principal payments, the amount owed to the State will be paid back as follows:

<u>Year Ended September 30</u>	<u>Payment to State</u>
2014	\$ 213,500
2015	220,500
2016	224,000
2017	231,000
2018	234,500
2019-2021	747,569
Total	<u>\$ 1,871,069</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 8 – LONG-TERM DEBT - continued

Long-term debt activity for the year ended September 30, 2013 was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Business-Type Activities:				
Due to The State of MO	\$ 2,081,069	\$ 0	\$ 210,000	\$ 1,871,069
Revenue Bonds	2,960,000	0	300,000	2,660,000
	<u>\$ 5,041,069</u>	<u>\$ 0</u>	<u>\$ 510,000</u>	<u>\$ 4,531,069</u>

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2013, was as follows:

	Balance October 1, 2012	Additions	Deductions	Balance September 30, 2013	Current Portion
Governmental Activities:					
Capital Leases					
Firestation Lease	\$ 3,833,000	\$ 0	\$ (168,000)	\$ 3,665,000	\$ 175,000
Certificates of Participation					
Series 2005 - Public Works Improvements	1,152,024	0	(392,940)	759,084	759,084
Total Governmental Activities	<u>\$ 4,985,024</u>	<u>\$ 0</u>	<u>\$ (560,940)</u>	<u>\$ 4,424,084</u>	<u>\$ 934,084</u>

	Balance October 1, 2012	Additions	Deductions	Balance September 30, 2013	Current Portion
Business-Type Activities:					
Certificates of Participation					
Series 2005 - Centene Center	1,442,976	0	(492,060)	950,916	950,916
Series 2011 - Radionuclide Project	4,170,000	0	(370,000)	3,800,000	375,000
Series 2011 - Treatment Plant UV Project	940,000	0	(80,000)	860,000	85,000
Revenue Bonds					
Series 2000A - West Treatment Plant	2,960,000	0	(300,000)	2,660,000	305,000
Due to State of Missouri	2,081,069	0	(210,000)	1,871,069	213,500
Customer Deposits	374,044	10,009	0	384,053	0
Total Business-Type Activities	<u>\$ 11,968,089</u>	<u>\$ 10,009</u>	<u>\$ (1,452,060)</u>	<u>\$ 10,526,038</u>	<u>\$ 1,929,416</u>

NOTE 10 – DEFERRED AMOUNTS RELATED TO NET POSITION

Deferred inflows of resources exist in the amount of \$2,412 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.

For business-type activities, a deferred inflow of resources exists in the amount of \$7,220 for prepayment of facility deposits at the Civic Center for future use. These amounts will be realized as revenue in the future upon use of the facility.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 11 – INTEREST EXPENSE

During the year ended September 30, 2013, \$465,728 of interest has been directly charged to the various City functions. No interest has been capitalized or indirectly charged. The interest charged is as follows:

<u>Function</u>	<u>Amount</u>
Streets and Public Works	\$ 34,214
Public Safety	75,034
Civic Complex	42,845
Water Utility	125,522
Sewer Utility	<u>188,113</u>
	\$ 465,728

NOTE 12 – INTER-FUND TRANSACTIONS

Inter-Fund Balances

Inter-fund receivables and payables are current amounts owed between funds within the City. The following details the amounts and purpose of the inter-fund receivables and payables at September 30, 2013.

- A temporary loan in the amount of \$350,713 is owed to the General Fund from the Airport Fund which is payable upon receipt of a grant reimbursement from Missouri Department of Transportation for expansion work at the airport.
- Temporary loan in the amount of \$69,824 is owed to the General Fund from the Transportation Fund for payment of capital projects work completed prior to the receipt of tax revenue. Loan is to be repaid once additional tax revenues are received.
- The Special Allocation Fund is owed a total of \$102,100 for those monies required to be transferred as incremental economic activity taxes under the tax increment financing development plan. This balance includes amounts for taxes accrued as of September 30, 2013. The amount owed by fund is: General Fund \$50,850, Storm Water & Parks Fund \$12,850, Transportation Fund \$12,850 and Capital Projects Fund \$25,550.

Inter-fund Transfers

During the year ended September 30, 2013, the following inter-fund transfers took place between the various City funds:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General	Storm Water & Parks	\$ 195,485	Parks operating costs
Debt Service	Special Allocation	\$ 237,990	Firestation Debt Payment
Debt Service	Capital Projects	\$ 413,546	COP Payment
Special Allocation	General	\$ 171,163	Karsch-Downtown TIF Incremental EATs tax
Special Allocation	General	\$ 23,279	Highway 67 TIF Incremental EATs tax
Special Allocation	Storm Water & Parks	\$ 75,513	Karsch-Downtown TIF Incremental EATs tax
Special Allocation	Storm Water & Parks	\$ 6,252	Highway 67 TIF Incremental EATs tax
Special Allocation	Transportation	\$ 75,513	Karsch-Downtown TIF Incremental EATs tax
Special Allocation	Transportation	\$ 6,252	Highway 67 TIF Incremental EATs tax
Special Allocation	Capital Projects	\$ 84,305	Karsch-Downtown TIF Incremental EATs tax
Special Allocation	Capital Projects	\$ 11,640	Highway 67 TIF Incremental EATs tax
Storm Water & Parks	Special Allocation	\$ 17,150	Projects completed within TIF districts
Transportation	Special Allocation	\$ 65,000	Projects completed within TIF districts
Capital Projects	Special Allocation	\$ 58,469	Projects completed within TIF districts
Civic Complex	Capital Projects	\$ 534,863	COP Payment
Civic Complex	General	\$ 325,000	Fund reserves to meet established policy percent
Airport	General	\$ 19,697	Fund operational costs deficit
Airport	Capital Projects	\$ 40,331	Fund grant match for airport expansion project
Sewer	Special Allocation	\$ 375,000	Projects completed within TIF districts
Sewer	Capital Projects	\$ 108,501	UV Equipment debt service payment from tax revenue

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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 401(a), 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 Status

The City's full time employees do not contribute to the pension plan. The June 30th statutorily required contribution rates are 12.5% (General), 12.0% (Police) and 13.4% (Fire) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost and Net Pension Obligation

For 2013, the City's annual pension cost and net pension obligation for the year were as follows:

Annual required contribution	\$ 599,260
Interest on net pension obligation	8,005
Adjustment to annual required contribution	<u>(8,753)</u>
Annual pension cost	598,512
Actual contributions	<u>590,870</u>
Increase (decrease) in net pension obligation	7,642
Net pension obligation beginning of year	<u>110,409</u>
Net pension obligation end of year	<u>\$ 118,051</u>

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 15 – RETIREMENT PLAN - continued

The annual required contribution (ARC) was determined as part of the February 28, 2010 and February 28, 2011 annual actuarial valuations using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2013 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 February 28, 2010 was 30 years for the General division, 30 years for the Police division, and 30 years for the Fire division. The amortization period as of February 28, 2011 was 25 years for the General division, 29 years for the Police division and 23 years for the Fire division.

<u>Three-Year Trend Information</u>			
Year Ended	Annual Pension	Percentage of APC	Net Pension
30-Jun	Cost (APC)	Contributed	Obligation
2011	\$ 580,511	88.7%	\$ 65,598
2012	572,629	92.2%	110,409
2013	598,512	98.7%	118,051

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 state statutes.

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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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

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

It is anticipated that the redevelopment will support the issuance of \$14,800,000 of TIF Debt. However, it is the intent of this redevelopment plan to declare an amount equal to 100% of all PILOTS as surplus on an annual basis and pass through that amount to the individual taxing entities. This plan anticipates a total of \$14,708,580 of PILOTS. The actual PILOTS over the 23 year projected life of the TIF District will depend on the amount of actual development that occurs and may be more than the projected \$20,000,000, but will be limited to the amount of actual PILOTS collected. As of September 30, 2013, no TIF bonds had been issued by the City of Farmington for this project.

Highway 67 TIF District

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

It is the intent of this redevelopment plan to declare an amount equal to 100% of all PILOTS as surplus on one 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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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

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 \$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. The bond and associated interest are payable solely out of the rents, revenues, and receipts derived from the bond project and lease and not from any other fund or source of the City. The principal balance on the bonds at September 30, 2013 is \$25,303,685. At the same time of the bond, 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, 2013 is \$1,745,000. 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 is comprised of 35 members as of September 30, 2013. 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. 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.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 18 – LONG-TERM CONTRACTS - continued

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

Capital Sales Tax Extension and Related Debt Issuance

In November 2013, the citizens of Farmington approved the extension of a capital sales tax with a 78% approval rating. The sales tax goes into effect April 1, 2014 and has a ten year sunset. The sales tax is expected to generate approximately \$1.6 million per year which will be used for capital projects related to a new library and public safety and other miscellaneous capital improvements. In relation to the sales tax, the City anticipates closing on approximately \$8,600,000 of Certificates of Participation (COP) in March 2014.

Lease-Purchase of Fire Apparatuses

In February 2014, the City Council approved a budget amendment and corresponding lease-purchase of a new fire pumper truck and associated equipment valued at approximately \$840,000.

Donation of Property

In October 2013, Christian Health Services Development Corporation donated approximately 1.5 acres of land with a reported appraised value of \$132,350 (Source: St. Francois County Assessor). The property is the future site of the new municipal library. The City intends to lease or sell the former library facility upon completion of the new library.

GPMVLC Community Improvement District

In December 2013, the City approved an amendment to the Cooperative Agreement with GPMVLC Community Improvement District to a project maximum reimbursable amount of \$2,500,000 from the previous amount of \$1,000,000. The developer has sold the building that formerly housed the Value City store. The building will be the future site of a Schnuck's Market slated to open in late 2014 with projected net new sales of \$14,300,000. Schnuck's Markets Inc. is a regional leader in the supermarket industry operating over 100 stores in 5 states.

Highway 67 TIF District

The City is considering approval of a Redevelopment Agreement between the City, Menards and Priority Property Holdings, an amendment and restatement of a Redevelopment Agreement between the City and Priority Property Holdings, and an amendment and restatement of a Cooperative Agreement between the City, Priority Property Holdings, and the District. The agreements are in reference to the purchase of approximately 25 acres by Menards to create a retail commercial development of at least 100,000 square feet with projected sales of \$25,000,000 (Menards' Project Sub-Area).

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 19 – SUBSEQUENT EVENTS - continued

The Developer will be granted a sales tax rebate agreement in the amount of \$4,850,000 with payments received on a pay-as-you-go basis. All currently outstanding TIF notes are to be cancelled and the current Community Improvement District boundaries will be amended to remove the Menards property. The agreements will increase the maximum annual payout of the EATs increment from 40% to 100%. Menards is a home-improvement store with over 280 stores in 14 states.

Columbia Street and Liberty Street Improvements

In February 2014, the City paid to Missouri Department of Transportation a deposit in the amount of approximately \$675,671 for a cooperative agreement to include Columbia Street and Liberty Street. The City's full funding obligation on the \$2.2 million project is \$1,133,000. Per an agreement with MODOT \$457,259 will be transferred from the City's allocated portion of federal funds held by MODOT and the City will remit payment to MODOT in the amount of \$675,671. The "High School Loop" Project includes construction of a sidewalk from the High School along Black Knight Drive to Columbia Street and along Columbia Street to Westmount Drive, along Westmount Drive from Columbia Street to Liberty Street, and along Maple Valley Drive from Liberty Street to the Maple Valley Plaza shopping center.

Electric Rate Increases

In the fiscal year ending September 30, 2014, the City expects to continue to see wholesale utility rate increases in the three to five percent range. During the two prior fiscal years, 2012 and 2013, the City experienced a 3.4% and 13.0% respective increase. The City has opted to delay rate increases to its residents until March 2014, utilizing reserves to offset the increase. In 2011, the City commissioned Toth & Associates, an engineering firm, to perform a rate and service analysis. The upcoming rate increase consists of varying per unit increases by customer class based on the recommendations provided in the analysis. Customers are expected to see the following overall increases by customer class: residential 12%, schools and churches 17%, commercial 6%, and industrial 10%.

Airport Land and Easement Acquisitions

As part of an ongoing expansion project at the City's airport, the City is making continued negotiations to acquire property and avigation easements adjacent to the Farmington Regional Airport. As part of this project, the City has acquired four properties as of September 30, 2013. Current project plans include the acquisition of an additional four properties and fifteen avigation easements.

Declaration of Surplus Funds - Special Allocation Fund

In relation to the Highway 67 Tax Increment Finance District, the City Council declared surplus a total of \$175,000 in tax increment revenues that had been paid in to the District. This surplus was rebated to the individual taxing entities based on their prorata share paid to the District. The following payments were disbursed in January 2014:

<u>Payable To</u>	<u>Amount</u>
St. Francois County	\$ 67,400
City of Farmington General Fund	75,400
City of Farmington Capital Projects Fund	32,200

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, 2013, the City had deposits of \$10,448,292 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, 2013, the Mayor had no balance due on account for hangar space rental.

CITY OF FARMINGTON, MISSOURI
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

NOTE 20 – RELATED PARTY TRANSACTIONS - continued

The City leases a rental property to Fire Chief Todd Mecey. The property was purchased for a future airport expansion and has been leased for a short term prior to demolition. The City assumed a previously existing lease upon acquisition of the property. The lease is anticipated to terminate in July 2014.

NOTE 21 – NET POSITION RESTRICTED BY ENABLING LEGISLATION

The amount of net position restricted by enabling legislation at September 30, 2013 is as follows:

<u>Fund</u>	<u>Net Position at September 30, 2013</u>
Capital Projects	\$ 1,067,960
Special Allocation	891,427
Storm Water & Parks	356,968
Transportation Tax	<u>57,412</u>
Total	<u>\$ 2,373,767</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, 2013

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Sales Tax	\$ 3,300,000	\$ 3,300,000	\$ 3,300,773	\$ 773
Real and Personal Property Tax	811,400	811,400	830,591	19,191
Grants & Donations	163,000	163,000	183,470	20,470
Charges for Services	568,291	568,291	681,160	112,869
Motor Fuel and Vehicle Tax	550,000	550,000	588,398	38,398
Utility, Gross Receipts, and Other Taxes	721,600	721,000	683,161	(37,839)
Interest Income	4,000	4,000	1,022	(2,978)
Administrative Pilot Payment	1,361,800	1,361,800	1,270,171	(91,629)
Other	5,600	5,600	12,971	7,371
Total Revenue	7,485,691	7,485,091	7,551,717	66,626
<u>EXPENDITURES</u>				
General Government				
Administration	1,056,500	1,196,000	1,190,450	5,550
Public Safety				
Police	2,222,550	2,254,050	2,223,088	30,962
Municipal Court	85,300	90,800	93,659	(2,859)
Fire	778,100	822,600	794,625	27,975
Streets and Public Works				
Street	762,900	760,900	699,220	61,680
Public Works	381,200	401,200	358,870	42,330
Maintenance	422,300	498,800	487,085	11,715
Culture and Recreation				
Park	653,800	653,800	646,251	7,549
Library	300,000	300,000	290,141	9,859
Capital Outlay	911,000	950,000	652,954	297,046
Total Expenses	7,573,650	7,928,150	7,436,343	491,807
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(87,959)	(443,059)	115,374	558,433
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	352,000	180,000	195,485	15,485
Transfers Out	(516,400)	(562,900)	(539,139)	23,761
Gain/Loss on Asset	15,000	15,000	18,243	3,243
Total Other Financing Sources(Uses)	(149,400)	(367,900)	(325,411)	42,489
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ (237,359)</u>	<u>\$ (810,959)</u>	(210,037)	<u>\$ 600,922</u>
FUND BALANCE, OCTOBER 1, 2012			<u>2,531,478</u>	
FUND BALANCE, SEPTEMBER 30, 2013			<u>\$ 2,321,441</u>	

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

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

Year Ended September 30, 2013

	<u>Appropriated Budget Amounts</u>		<u>Actual</u>	<u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Variance</u>
<u>REVENUES</u>				
Interest Income	\$ 50,000	\$ 72,000	\$ 72,165	\$ 165
Total Revenue	50,000	72,000	72,165	165
<u>EXPENDITURES</u>				
Debt Service Interest and Fees	186,000	223,800	177,897	45,903
Debt Service Principal	<u>561,000</u>	<u>561,000</u>	<u>560,940</u>	<u>60</u>
Total Expenditures	<u>747,000</u>	<u>784,800</u>	<u>738,837</u>	<u>45,963</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(697,000)	(712,800)	(666,672)	46,128
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfer In	697,000	712,800	651,536	(61,264)
Transfer Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>697,000</u>	<u>712,800</u>	<u>651,536</u>	<u>(61,264)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>	(15,136)	<u>\$ (15,136)</u>
FUND BALANCE, OCTOBER 1, 2012			<u>407,620</u>	
FUND BALANCE, SEPTEMBER 30, 2013			<u>\$ 392,484</u>	

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

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

Year Ended September 30, 2013

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Transient Tax Income	\$ 200,000	\$ 200,000	\$ 203,047	\$ 3,047
Interest Income	<u>0</u>	<u>0</u>	<u>16</u>	<u>16</u>
Total Revenue	200,000	200,000	203,063	3,063
<u>EXPENDITURES</u>				
General Government	<u>200,000</u>	<u>200,000</u>	<u>203,063</u>	<u>(3,063)</u>
Total Expenditures	<u>200,000</u>	<u>200,000</u>	<u>203,063</u>	<u>(3,063)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	0	0	0	0
OTHER FINANCING SOURCES(USES)				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources(Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES				
	<u>\$ 0</u>	<u>\$ 0</u>	0	<u>\$ 0</u>
FUND BALANCE, OCTOBER 1, 2012			0	
FUND BALANCE, SEPTEMBER 30, 2013			<u>\$ 0</u>	

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

**CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
STORM WATER AND PARKS TAX FUND**

Year Ended September 30, 2013

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Sales Tax	\$ 710,000	\$ 710,000	\$ 781,941	\$ 71,941
Interest Income	<u>0</u>	<u>0</u>	<u>41</u>	<u>41</u>
Total Revenue	710,000	710,000	781,982	71,982
<u>EXPENDITURES</u>				
Capital Expenditures	<u>530,000</u>	<u>524,000</u>	<u>164,914</u>	<u>359,086</u>
Total Expenditures	<u>530,000</u>	<u>524,000</u>	<u>164,914</u>	<u>359,086</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	180,000	186,000	617,068	431,068
OTHER FINANCING SOURCES(USES)				
Transfers In	0	65,000	17,150	\$ (47,850)
Transfers Out	<u>(180,000)</u>	<u>(251,000)</u>	<u>(277,250)</u>	<u>\$ (26,250)</u>
Total Other Financing Sources(Uses)	<u>(180,000)</u>	<u>(186,000)</u>	<u>(260,100)</u>	<u>(74,100)</u>
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>	356,968	<u>\$ 356,968</u>
FUND BALANCE, OCTOBER 1, 2012			0	
FUND BALANCE, SEPTEMBER 30, 2013			<u>\$ 356,968</u>	

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

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

Year Ended September 30, 2013

	<u>Appropriated Budget Amounts</u>			<u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>				
Sales Tax	\$ 710,000	\$ 710,000	\$ 781,942	\$ 71,942
Grants and Donations	0	0	\$ 31,867	31,867
Interest Income	0	0	11	11
Total Revenue	710,000	710,000	813,820	103,820
<u>EXPENDITURES</u>				
Capital Expenditures	710,000	704,000	739,643	(35,643)
Total Expenditures	710,000	704,000	739,643	(35,643)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	0	6,000	74,177	68,177
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	0	65,000	65,000	0
Transfers Out	0	(71,000)	(81,765)	(10,765)
Total Other Financing Sources(Uses)	0	(6,000)	(16,765)	(10,765)
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>	57,412	<u>\$ 57,412</u>
FUND BALANCE, OCTOBER 1, 2012			0	
FUND BALANCE, SEPTEMBER 30, 2013			<u>\$ 57,412</u>	

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

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

Year Ended September 30, 2013

	<u>Appropriated Budget Amounts</u>			<u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>				
TIF Proceeds From Other Governments	\$ 582,000	\$ 643,000	\$ 539,110	\$ (103,890)
Interest Income	300	300	268	(32)
Other Income	0	0	1,521	1,521
Total Revenue	582,300	643,300	540,899	(102,401)
<u>EXPENDITURES</u>				
General Government	384,300	409,800	307,468	102,332
Capital Expenditures	20,000	74,000	50,269	23,731
Total Expenditures	404,300	483,800	357,737	126,063
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>				
	178,000	159,500	183,162	23,662
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	380,000	422,500	453,916	31,416
Transfers Out	(598,000)	(857,300)	(753,609)	103,691
Total Other Financing Sources(Uses)	(218,000)	(434,800)	(299,693)	135,107
<u>EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES</u>				
	<u>\$ (40,000)</u>	<u>\$ (275,300)</u>	(116,531)	<u>\$ 158,769</u>
<u>FUND BALANCE, OCTOBER 1, 2012</u>				
			1,007,958	
<u>FUND BALANCE, SEPTEMBER 30, 2013</u>				
			<u>\$ 891,427</u>	

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

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

Year Ended September 30, 2013

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Sales Tax	\$ 1,920,000	\$ 1,690,000	\$ 1,643,729	\$ (46,271)
Grants and Donations	0	0	4,975	4,975
Interest Income	5,000	5,000	886	(4,114)
Total Revenue	1,925,000	1,695,000	1,649,590	(45,410)
<u>EXPENDITURES</u>				
Capital Expenditures	430,500	930,500	961,273	(30,773)
Total Expenditures	430,500	930,500	961,273	(30,773)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,494,500	764,500	688,317	(76,183)
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	166,000	76,500	58,469	(18,031)
Transfers Out	(1,660,500)	(1,309,900)	(1,193,185)	116,715
Total Other Financing Sources(Uses)	(1,494,500)	(1,233,400)	(1,134,716)	98,684
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (468,900)</u>	(446,399)	<u>\$ 22,501</u>
FUND BALANCE, OCTOBER 1, 2012			<u>1,265,186</u>	
FUND BALANCE, SEPTEMBER 30, 2013			<u>\$ 818,787</u>	

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

**CITY OF FARMINGTON, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS-AGENT RETIREMENT PLAN (LAGERS)
SEPTEMBER 30, 2013**

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
2/28/2011	\$ 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%
2/28/2013	11,770,839	12,852,405	1,081,566	92%	4,752,232	23%

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the 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 by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

FEDERAL FINANCIAL ASSISTANCE

CITY OF FARMINGTON, MISSOURI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2013

Summary of Audit Results

1. The auditors' report expressed an unqualified opinion on the financial statements.
2. One significant deficiency relating to the audit of the financial statements is 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 Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by 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 program tested as a major program was the Department of Transportation-Air Entitlement Funds, CFDA #20.106
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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass Through Grant Numbers</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
Department of Justice			
<i>Pass Through Grant from Department of Public Safety Passed to Mineral Area Drug Task Force</i>			
Edward Byrne Memorial Justice Assistance Grant	2011-JAG-005 2012-JAG-005	16.738	\$ 96,306
Total Department of Justice			<u>\$ 96,306</u>
Department of Transportation			
<i>Pass Through Grant from Missouri Department of Transportation</i>			
Air Entitlement Funds	11-061C-1	20.106	\$ 416,566
<i>Pass Through Grant from Missouri Department of Transportation</i>			
Highway Planning and Construction	STP-2500(005)	20.205	\$ 31,867
<i>Pass Through Grant from Department of Public Safety</i>			
Hazardous Moving Violations	13-PT-02-037	20.600	\$ 1,956
DWI Enforcement	13-154-AL-032	20.607	\$ 335
Total Department of Transportation			<u>\$ 450,723</u>
Institute of Museum and Library Services			
<i>Pass Through Grant from Missouri State Library</i>			
Summer Reading Program Collection Development Grant	2013-LCP2-TCDC2CN2-7106	45.310	\$ 3,028
Federal Grant LS-00-12-0026-12			
Total Environmental Protection Agency			<u>\$ 3,028</u>
Department of Health and Human Services			
<i>Pass Through Grant from Southeast Missouri Area Agency on Aging</i>			
HHS Older Americans Act Programs Title III, Part C Nutrition Services		93.045	\$ 113,906
Elderly Nutrition Program		93.053	\$ 39,452
Total Department of Health and Human Services			<u>\$ 153,358</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 703,415</u>

NOTE A - BASIS OF PRESENTATION

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

NOTE B - NON-CASH ASSISTANCE

No USDA donated foods were received during the year ended September 30, 2013.

NOTE C - FEDERAL AWARDS PASSED ON TO SUBRECIPIENTS

\$96,306 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, 2013

CURRENT FINDINGS AND QUESTIONED COSTS

FINDINGS - FINANCIAL STATEMENT AUDIT

2013-01 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 upon 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 of 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. The City has attempted to implement a roll-forward schedule, but has been unable to do so at this time due to software constraints. The City has begun performing periodic spot checks, of the receipts and ticket balances, but the scope is limited. The City will continue to work on a process to obtain an accurate roll-forward schedule and address potential control shortfalls.

CITY OF FARMINGTON, MISSOURI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2013

PRIOR FINDINGS AND QUESTIONED COSTS

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 bases 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 of 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.

Status of Finding: The City has attempted to implement a roll-forward schedule, but has been unable to do so at this time due to software constraints. See current finding.

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 of 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 has completed integration of the purchase order, inventory control, and general ledger modules in the software system. Inventory parts are receipted and issued on a daily basis maintaining the perpetual inventory system. The City continues to perform periodic cycle counts of inventory and performs adjustments when necessary in addition to working to determine the root cause of any adjustment.