

CITY OF FARMINGTON, MISSOURI

FINANCIAL STATEMENTS

September 30, 2016

CITY OF FARMINGTON, MISSOURI

TABLE OF CONTENTS

September 30, 2016

	<u>Page</u>
Independent Auditors' Report	1-2
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 <i>Government Auditing Standards</i>	3-4
Management's Discussion and Analysis	5-24
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	25
Statement of Activities	26
Fund Financial Statements:	
Balance Sheet-Governmental Funds	27
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of the Governmental Funds to the Statement of Activities	29
Statement of Net Position-Proprietary Fund Types	30
Statement of Revenues, Expenditures and Changes in Net Position-Proprietary Fund Types	31
Statement of Cash Flows-Proprietary Fund Types	32
Notes to the Basic Financial Statements	33-60
Required Supplemental Information:	
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-General Fund	61
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-Debt Service Fund	62
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-Transient Tax Fund	63
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-Storm Water and Parks Tax Fund	64

CITY OF FARMINGTON, MISSOURI

TABLE OF CONTENTS

September 30, 2016

	<u>Page</u>
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-Transportation Tax Fund	65
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-Capital Projects Fund	66
Required Supplementary Information – Employees' Retirement Plan	67-68
Schedule of Findings and Responses	69
Schedule of Prior Year Findings and Responses.....	70

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Farmington, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Farmington, Missouri as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Farmington, Missouri'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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the aggregate remaining fund information of the City of Farmington, Missouri, as of September 30, 2016, 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.

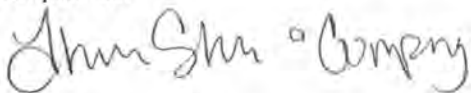
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, governmental fund budgetary comparison and required supplementary information – employees' retirement plan on pages 5–24 and 61-68 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of the City of Farmington, Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Thurman, Shinn & Company
Certified Public Accountants

Farmington, Missouri
March 6, 2017

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INDEPENDENT AUDITOR'S 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, each major fund and the aggregate remaining fund information of the City of Farmington, Missouri, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Farmington, Missouri's basic financial statements and have issued our report thereon dated March 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Farmington, Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Farmington, Missouri's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency, 2016-1.

Compliance and Other Matters

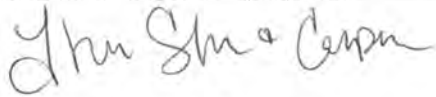
As part of obtaining reasonable assurance about whether the City of Farmington, Missouri's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 Responses. 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.

A handwritten signature in cursive script, appearing to read "Thurman Shinn & Company".

Thurman, Shinn & Company
Certified Public Accountants

Farmington, Missouri
March 6, 2017

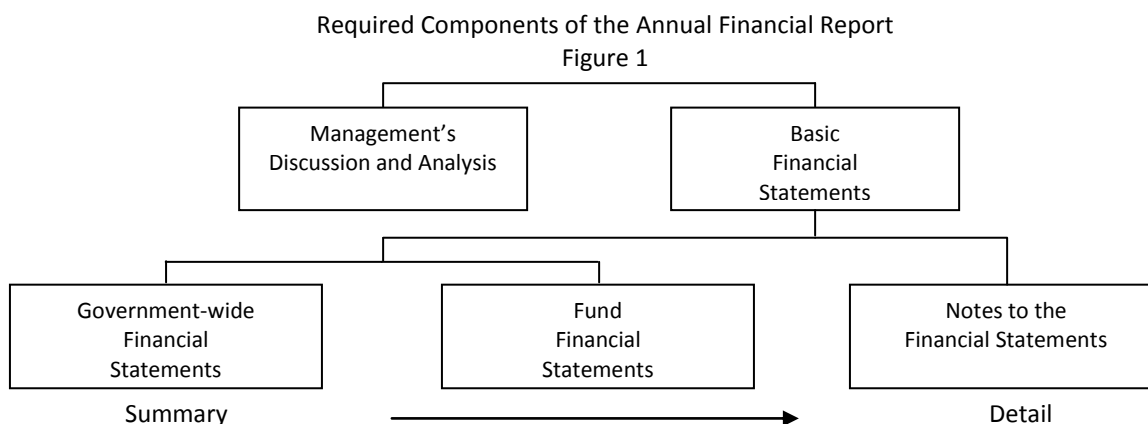
As management of the City of Farmington (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2016. We encourage readers to review the information presented here in conjunction with additional 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 \$92.8 million, a 4.4% increase over the prior year (*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 approximately \$3.8 million. This increase is representative of a \$2.5 million increase in governmental activities and a \$1.3 million increase in position in business-type activities.
- Of the governmental fund balances, approximately \$3.8 million is available for spending at the government's discretion (*unassigned, assigned, and committed fund balances*). This is an 11% increase from the prior year amount of \$3.4 million. The majority of this increase is due to the sale of the previous library facility. The proceeds from the sale have been assigned by management for application to annual library operating costs over a three year period beginning with the fiscal year ending September 30, 2016.
- At the end of the fiscal year, the governmental funds full unassigned balance of approximately \$2.8 million was held in the General Fund. This amounts to approximately 37% of General Fund operating expenditures for the fiscal year (capital outlay and debt service principal not included).
- Governmental activities general revenues (special items not included) were \$12.9 million in comparison to \$12.1 million the prior year, a 6.6% increase. This increase is a primarily due to an increase in tax revenues, which accounted for \$11.0 million (86%) of the revenue.
- The General Fund receives a payment in lieu of taxes (PILOT) from the electric, water, and sewer departments. The PILOT was set at 5% resulting in a total payment amount of \$1.4 million. 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.
- The City of Farmington's total debt decreased by \$1.1 million (5.8%) during the fiscal year. This decrease was the net effect of a reduction of \$2.6 million in principal and two new borrowings completed during the year with one borrowing in process at year end. The new borrowings consisted of a capital lease in the amount of \$0.425 million for a fire pumper rebuild and a second capital lease in the amount of \$0.950 million for construction costs relate to the construction of an electric substation on the north side of town. The borrowing in process resulted in \$0.123 million in debt for sewer system construction, replacement, and improvements.

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 25 to 26.

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 27 to 32.

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 33 to 60 with the Required Supplemental Information on pages 61 to 68.

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 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.

**MANAGEMENT DISCUSSION AND ANALYSIS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table reflects a condensed comparative statement of net position for September 30, 2016, and September 30, 2015. As previously mentioned, the 2015 Statement of Net Position is shown restated.

City of Farmington's Statement of Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015-Restated	2016	2015	2015	2015-Restated
Current Assets	\$ 5,462,165	\$ 5,185,787	\$ 13,569,304	\$ 11,296,806	\$ 19,031,469	\$ 16,482,593
Other Assets	3,710,477	3,120,528	2,210,199	2,954,642	5,920,676	6,075,170
Net Pension Asset	524,344	1,954,052	294,936	1,099,153	819,280	3,053,205
Capital assets (Net)	38,109,481	37,153,323	49,749,547	49,165,985	87,859,028	86,319,308
Total assets	47,806,467	47,413,690	65,823,986	64,516,586	113,630,453	111,930,276
Deferred Outflows	1,761,182	696,672	990,667	391,879	2,751,849	1,088,551
Current liabilities	3,207,794	3,140,408	4,234,637	3,060,307	7,442,431	6,200,715
Long-term liabilities	9,226,341	10,457,198	6,386,023	7,061,698	15,612,364	17,518,896
Total liabilities	12,434,135	13,597,606	10,620,660	10,122,005	23,054,795	23,719,611
Deferred Inflows	336,324	215,948	187,634	119,681	523,958	335,629
Net Position:						
Net investment in capital assets	26,939,653	25,431,218	43,815,998	43,100,039	70,755,651	68,531,257
Restricted	6,084,561	5,451,395	2,621,683	3,109,930	8,706,244	8,561,325
Unrestricted	3,772,976	3,414,195	9,568,678	8,456,810	13,341,654	11,871,005
Total net position	\$ 36,797,190	\$ 34,296,808	\$ 56,006,359	\$ 54,666,779	\$ 92,803,549	\$ 88,963,587

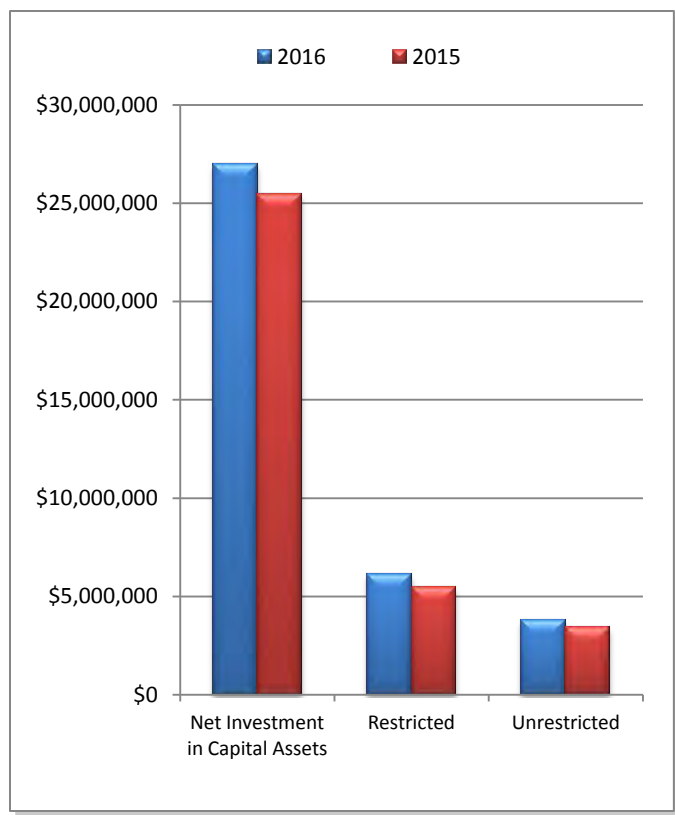
As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. A review of the government-wide statement of net position reveals the following:

- At September 30, 2016, the combined assets and deferred outflows of the City of Farmington exceeded the liabilities and deferred inflows by \$92,803,549. This equates to a 4.3%, or \$3,839,962 increase in combined net position as compared to September 30, 2015. This increase was split 65% (\$2,500,382) from governmental activities and 35% (\$1,339,580) from business-type activities.

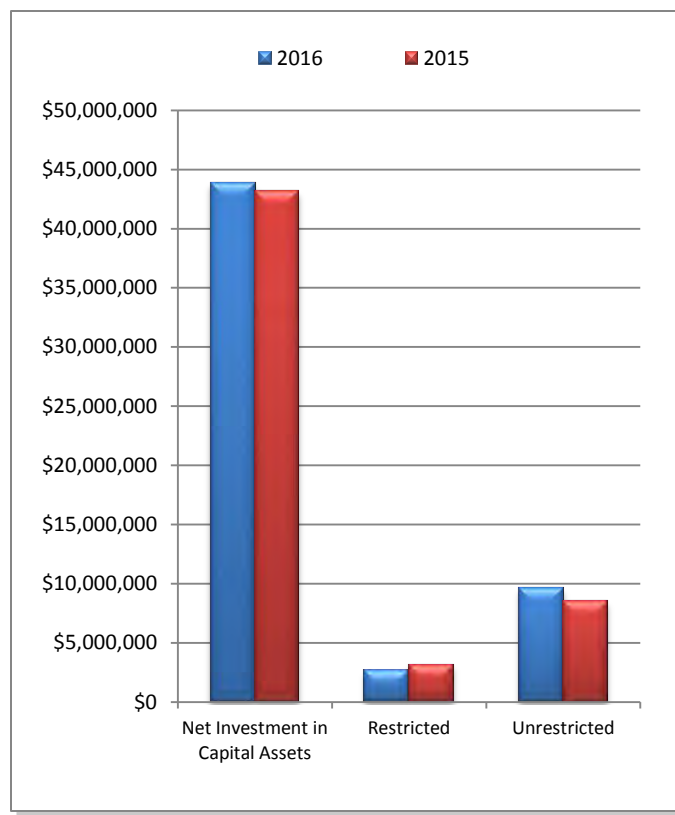
- Comparatively, the City's net investment in capital assets is approximately 76.2% of the total net position. The City of Farmington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Farmington's investment in its capital assets is reported net of the outstanding related debt less project funds unspent as of September 30, 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 \$2,224,394, or 3.2%. The City's governmental activities accounted for \$1,508,435 of this increase. The remaining \$715,959 is comprised of the following business type activities changes: Civic Complex Fund increased \$67,925, Airport Fund decreased \$16,478, Utility Fund increased \$287,728, and Sewer Fund increased \$376,784.
- An additional portion of the City's net position 9.4% (\$8,706,244) represents resources that are subject to external restrictions on how they may be used. This consists of \$6,084,561 for governmental activities and \$2,621,683 for business activities. The restricted amounts are for debt service, capital projects, pensions, tax increment finance districts, and sewer.
- The remaining balance of 14.4% (\$13,341,654) of the City's net position is unrestricted. This compares to \$11,871,005, or 13.3%, in the prior year (restated). Of the unrestricted net position, approximately 28% is attributable to governmental type activities, and 72% is attributable to business type activities.

The following charts depict a fiscal year comparison of the City's net position by activity type and category between fiscal years ending September 30, 2016, and September 30, 2015. (Figures 3 and 4)

Net Position Category
Governmental Activities
Figure 3



Net Position Category
Business-Type Activities
Figure 4



**MANAGEMENT DISCUSSION AND ANALYSIS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Figure 5 shown below reflects the changes to the net position as a result of the City's activities for the years ended September 30, 2016, and September 30, 2015.

City of Farmington's Changes in Net Position
Figure 5

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for goods and services	\$ 699,588	\$ 569,446	\$ 0	\$ 0	\$ 699,588	\$ 569,446
Electric Charges	0	0	21,844,322	22,234,979	21,844,322	22,234,979
Water Charges	0	0	3,421,603	3,027,205	3,421,603	3,027,205
Sewer Charges	0	0	2,606,084	2,432,459	2,606,084	2,432,459
Airport Charges	0	0	285,017	327,649	285,017	327,649
Civic Complex	0	0	1,517,134	1,445,210	1,517,134	1,445,210
Operating grants and contributions	258,194	192,248	263,421	228,856	521,615	421,104
Capital grants and contributions	0	97,044	206,846	24,372	206,846	121,416
General revenues:						
Sales Taxes	7,953,672	7,490,834	0	0	7,953,672	7,490,834
Property Taxes	861,638	848,463	0	0	861,638	848,463
Motor Fuel and Vehicle Taxes	630,750	649,764	0	0	630,750	649,764
Gross Receipts, Utility, and Other Taxes	647,907	653,559	0	0	647,907	653,559
Transient Guest Tax (Hotel/Motel)	277,175	259,168	0	0	277,175	259,168
TIF Proceeds	666,658	503,276	0	0	666,658	503,276
Interest Income	83,905	79,253	126,711	156,268	210,616	235,521
Administrative Pilot Payment	1,393,827	1,375,600	0	0	1,393,827	1,375,600
Insurance Proceeds	175,648	271,830	64,039	201,001	239,687	472,831
Other Income	10,627	32,931	0	0	10,627	32,931
Gain/(Loss) on Disposal of Assets	186,155	(70,913)	0	(758,353)	186,155	(829,266)
Total revenues	13,845,744	12,952,503	30,335,177	29,319,646	44,180,921	42,272,149
Expenses:						
General government	2,911,160	1,822,186	0	0	2,911,160	1,822,186
Public safety	3,984,893	3,788,084	0	0	3,984,893	3,788,084
Streets and Public Works	2,615,503	2,601,140	0	0	2,615,503	2,601,140
Cultural and recreation	1,504,112	1,257,276	0	0	1,504,112	1,257,276
Electric	0	0	20,842,318	21,135,786	20,842,318	21,135,786
Water	0	0	3,027,345	2,594,737	3,027,345	2,594,737
Sewer	0	0	2,717,098	2,548,901	2,717,098	2,548,901
Airport	0	0	669,265	663,500	669,265	663,500
Civic Complex	0	0	2,542,793	2,311,047	2,542,793	2,311,047
Total expenses	11,015,668	9,468,686	29,798,819	29,253,971	40,814,487	38,722,657
Change in net position before transfers and special items	2,830,076	3,483,817	536,358	65,675	3,366,434	3,549,492
Special or Extraordinary Items	473,528	0	0	0	473,528	0
Transfers	(803,222)	(1,894,025)	803,222	1,894,025	0	0
Change in net position	2,500,382	1,589,792	1,339,580	1,959,700	3,839,962	3,549,492
Net Position, September 30	34,296,808	32,652,310	54,666,779	52,707,079	88,963,587	85,359,389
Prior Period Adjustment	0	54,706	0	0	0	54,706
Net Position, September 30	\$ 36,797,190	\$ 34,296,808	\$ 56,006,359	\$ 54,666,779	\$ 92,803,549	\$ 88,963,587

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

- Total government revenues increased 5.6%, or \$2,382,300. Governmental activities accounted for 57% of the increase (\$1,366,769), and business activities accounted for 43% (\$1,015,531).

- Total government expenses increased by 5.4%, or \$2,091,830. Governmental activities accounted for 74% (\$1,546,982), and business activities accounted for 26% (\$544,848).

Governmental Activities

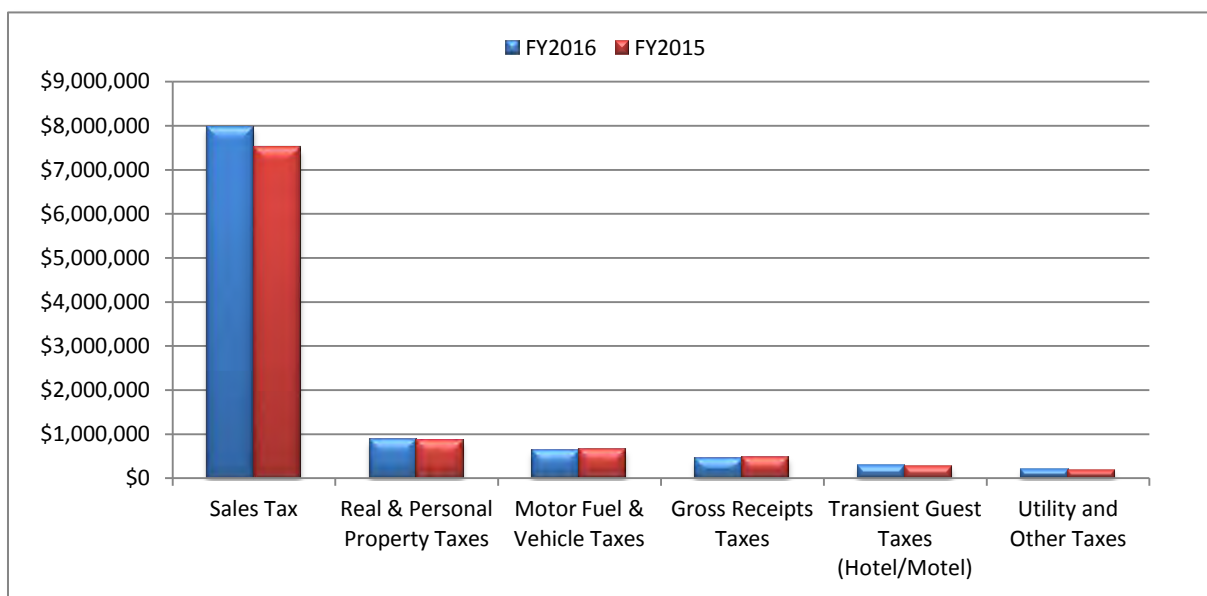
Governmental activities increased the City's net position by \$3,303,604 before transfers. Key elements of this change are as follows:

Revenue

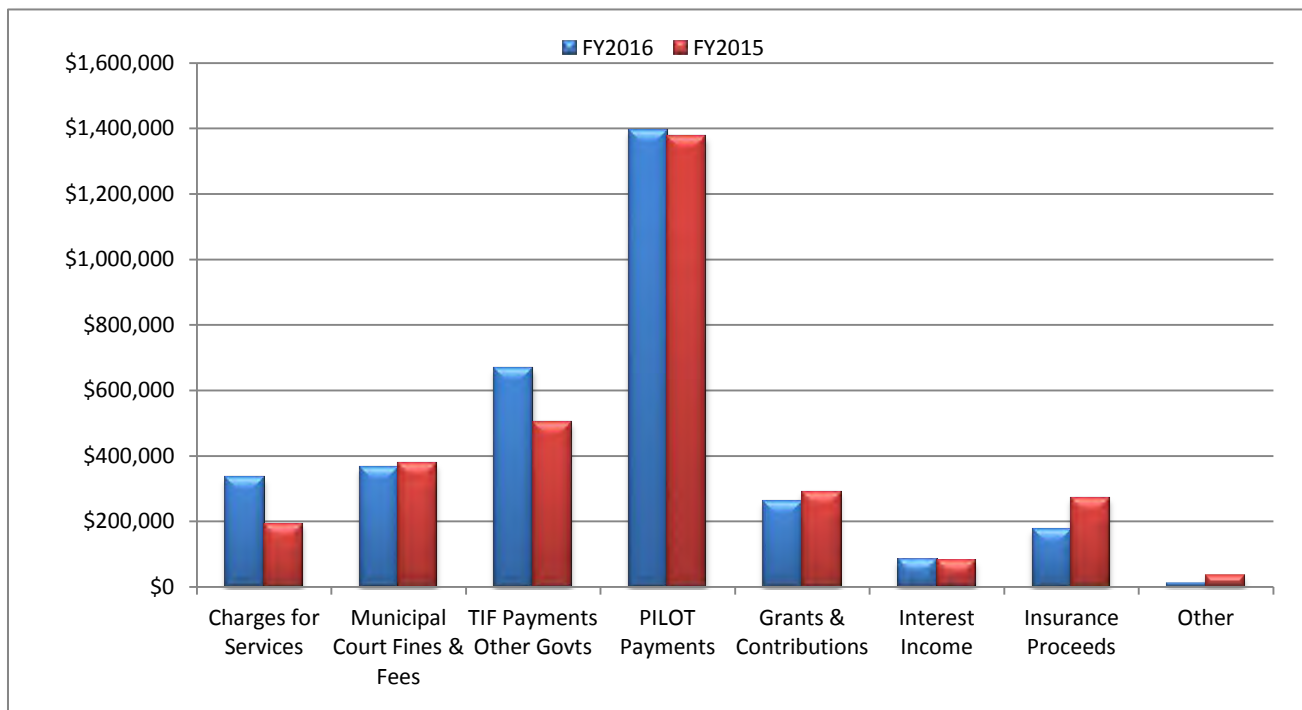
- Sales tax revenues increased by \$462,838. This represents a 6.2% increase over the prior year. The Fiscal Year 2016 increase marks three consecutive years of increased sales tax for the City, 6.2%, 8.4%, and 6.6%. Based on development in the area and economic growth, the City anticipates increases to continue as the economy grows, however a somewhat slower rate of increase is anticipated.
- Other tax revenue changes for the City included:
 - A 1.6% increase in property taxes, \$13,175, (Prior year change: +2.3%, \$19,455);
 - A 2.9% decrease in motor fuel and vehicle taxes, \$(19,014), (Prior year change: +6.6%, \$40,197);
 - A 4.6% decrease in gross receipts taxes \$(21,941), (Prior year change: -16.8%, \$(95,918));
 - A 6.9% increase in transient guest tax receipts, \$18,007, (Prior year change: +11.2%, \$26,122); and
 - A 9.1% increase in utility and other taxes combined, \$16,289, (Prior year change: +3.1%, \$5,430).
- Administrative pilot payments increased by \$18,227, or 1.3%, 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 are 5% of defined revenue of the Utility and Sewer Funds. Both water and sewer rates were increased during the fiscal year resulting in an increase in revenue and therefore an increase in the payments to the General Fund.
- Operating contributions and grants increased by \$100,511, or 23.9%, from the prior year to a total of \$521,615. Operating grants were received in the public safety area in the amount of \$242,736. This consisted of \$109,078 for the Mineral Area Drug Task Force, \$6,141 for youth seatbelt and hazardous moving vehicle enforcement efforts, \$59,216 from the Farmington R-7 School District as a cost-sharing contribution in support of the school resource officer program, \$68,000 from the St. Francois County 911 for support of the dispatch center which provides backup operations to the 911 communications center, and \$300 from First State Community Bank for support of the police department. Culture and recreation programs received contributions in the amount of \$15,458 for operation of the library, parks, and bike hostel from a combination of state aide and donations by individuals.
- The City received a one-time project refund of \$473,528 from Missouri Department of Transportation on the sidewalk project completed in 2015.
- Charges for services revenue changes included:
 - A \$22,341 increase in public safety revenue due to incident costs recovery on a fire call;
 - A \$70,230 increase in streets and public works due to storm water detention impact fee payments;
 - A \$10,788 increase in public works permitting fees due to increased development;
 - A \$16,506 increase in culture and recreation due to increased usage of the library upon opening of the new facility; and
 - A \$31,179 increase in culture and recreation due to the City taking over running of the concessions stands at the parks facilities. (A portion of this increase, \$20,768, is offset by costs for concession supplies.)

Figures 6 and 7 provide a prior year comparison of the revenues by category for the City of Farmington governmental activities.

Tax Revenues
Figure 6



General Revenues by Source
Figure 7



Expenses

- Overall, there was an increase of \$1,546,982, or 16%, in governmental activities operating expenses (debt service principal and or capital outlay not included). Changes by program area were:
 - A 59.8%, \$1,088,974, increase in general government, (Prior year change: +1.5%, \$27,528);
 - A 5.2%, \$196,809, increase in public safety, (Prior year change: +3.8%, \$137,285);
 - A 0.6%, \$14,363, increase in streets and public works, (Prior year change: +2.5%, \$64,380); and
 - A 19.6%, \$246,836, increase in culture and recreation, (Prior year change: +11.4%, \$128,825).

These changes in program expenses are represented in graph form on the following page.

- Personnel related expenses as a whole for the governmental activities had a 2.7% net increase, \$137,459. This was the net result of an increase in payroll and taxes of \$112,532, 2.9%, due to pay increases, a decrease in benefit expenses of \$32,918, -3.2%, and an increase in other related employee expenses such as uniforms and contracted labor of \$57,345.
- Pension plan related expenses increased \$696,465, 330%, over the prior year. Primary components of these expenses include service cost (the actuarial present value of projected benefit payments attributed to a valuation year), interest, administrative expenses, amortization of changes in actuarial assumptions, changes in casualty and benefit reserve fund allocations, differences between expected and actual experience, and differences between projected and actual earnings on plan investments. A large component of this change is related to the adoption of new actuarial assumptions related to mortality. The new assumptions were adopted based on the five year experience study for the period March 1, 2010, through February 28, 2015.
- Development agreement expenses related to tax sharing agreements in the District Municipal Fund increased \$202,082, 227%. Agreement payments are based entirely on a proportionate share of the general and capital projects taxes generated from the agreement sites. As new stores open, significant increases are expected.
- Building repair and maintenance costs increased \$153,260 and insurance claim costs increased \$86,405. These increases are largely driven by repair to various city facilities, vehicles, and equipment still being completed after the hail storm in April 2015. These increases are expected to be a one-time increase.
- Parks costs had a combined increased in system maintenance and concession supplies in the amount of \$47,328, 52.6%. This increase is driven by the City taking over the running of the concession stands at various park facilities and an increase in facility maintenance costs. It is anticipated that the costs will remain at this increased level for the ensuing fiscal year.
- Information technology costs increased by \$41,623, 55.4%. This increase is primarily related to phone system changes and website redesign. This increase is expected to continue into the ensuing fiscal year with the replacement of a server and increased emphasis on vulnerability and security measures.
- Fleet maintenance costs increased \$33,703, 24.8%, over the prior year. However, the prior year had been down by \$28,962. As the City has grown, there is also growth in the number of vehicles and pieces of equipment required to maintain City operations. What appears to be a substantial increase is a return to normal expected expenditures. However, it should be noted that there is continued possibility of future growth in expenses in this area.
- An increase in the amount of \$31,750 was included in the fire expenses for the restocking of the hazmat trailer. Supplies on the trailer are used on incident calls; additionally, some items have a shelf life and must be replaced periodically. The City recaptures the cost of supplies used on calls when possible.

Figure 8 provides a prior year comparison of the functional expenses for the City of Farmington governmental activities exclusive of debt service principal and capital outlays.

Expenses by Function
Figure 8

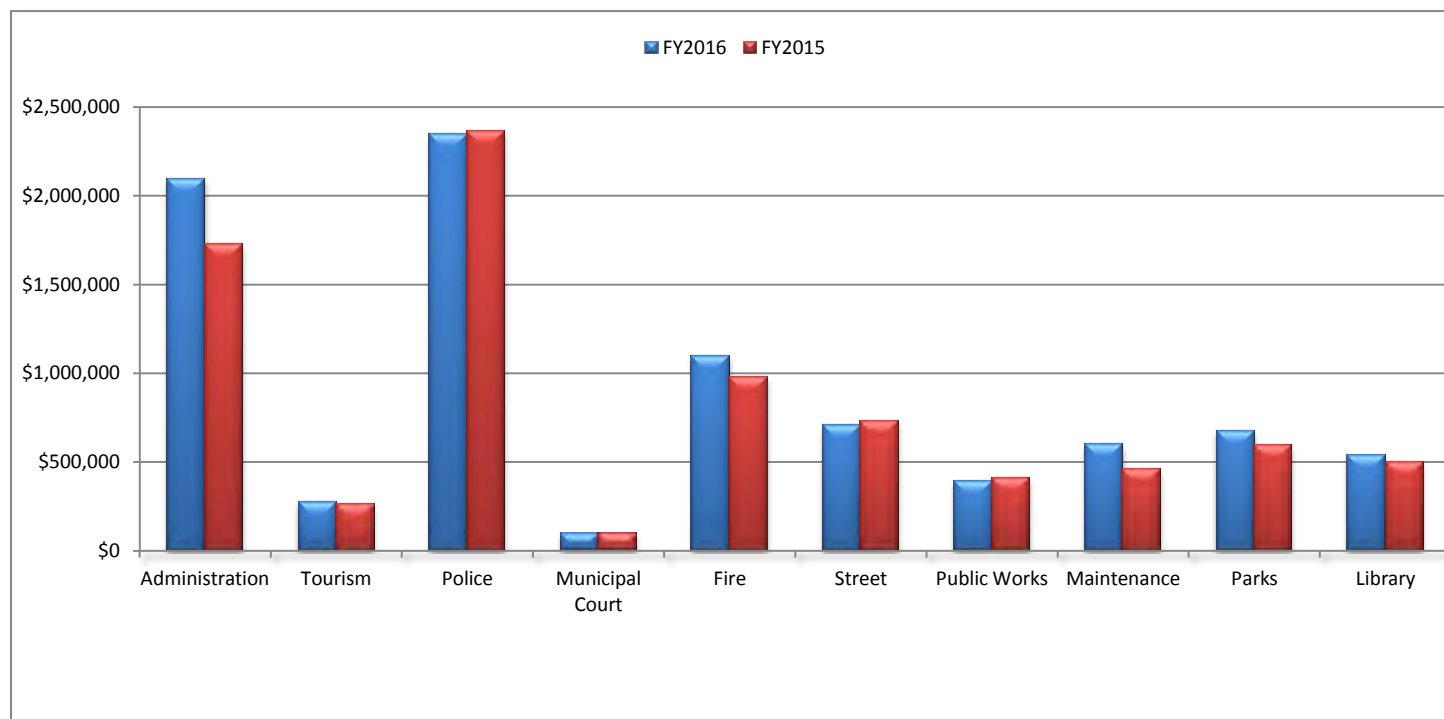
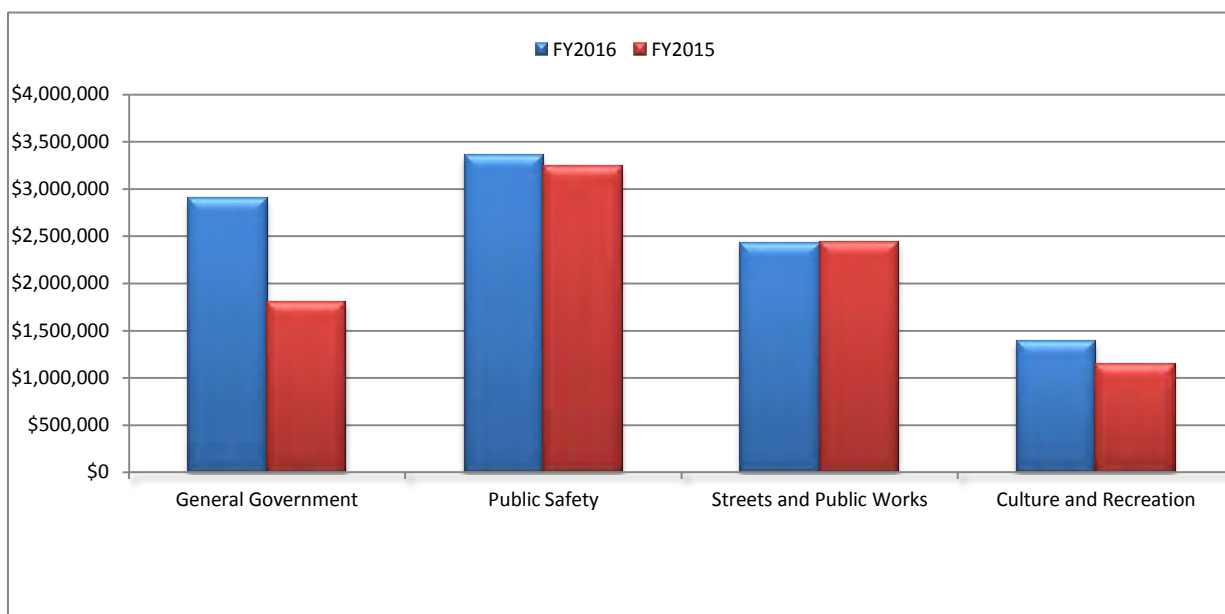


Figure 9 depicts the net cost of service for each activity area (*expenses – charges for service – grants and contributions*) for Fiscal Years ending September 30, 2016, and September 30, 2015. Changes in costs are discussed on the prior page.

Net Cost of Service Comparison
Figure 9

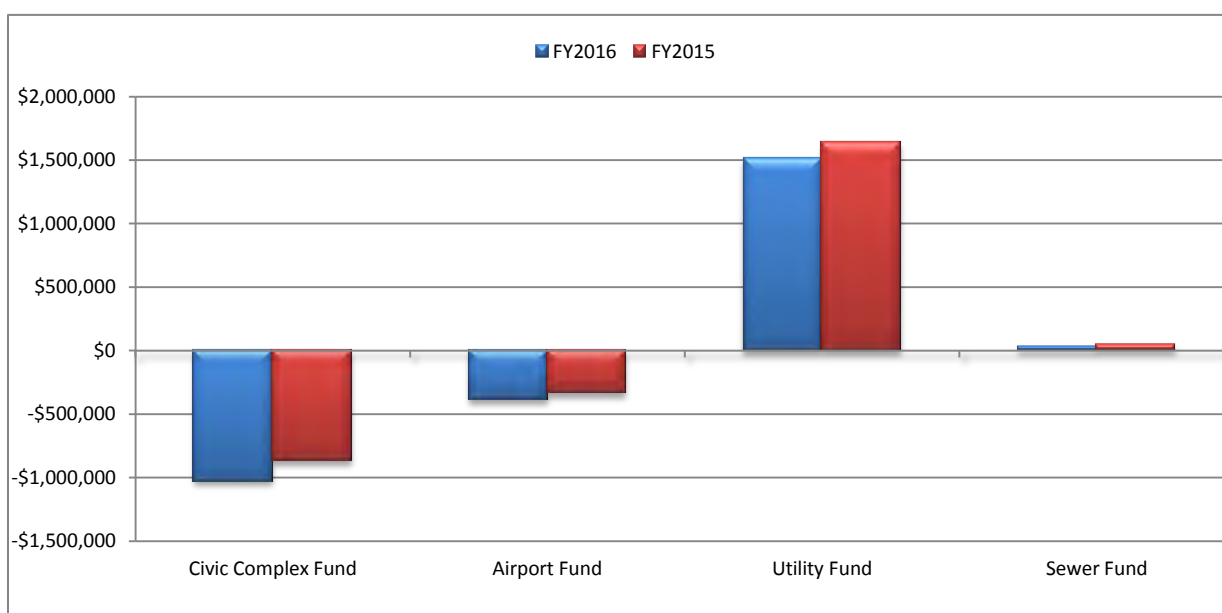


Business-Type Activities

Business-type activities increased the City of Farmington's net position by \$536,358 before transfers. Key elements of the changes are as follows:

- The Civic Complex Fund experienced a net loss before transfers of \$701,425. This loss, net of depreciation, was \$185,984. The loss is related to increased personnel costs and increased costs of maintenance to the facilities. The Civic Complex Fund encompasses the operation of the Civic Center, Centene Center, Water Park, Splash Pad, and Senior Center. An annual operating subsidy is transferred to the Civic Complex Fund from the General Fund. The subsidy for the year ended September 30, 2016 was \$275,581. The fund received an additional transfer of \$425,000 from the Capital Projects Fund for the completion of needed capital improvements.
- The Airport Fund recorded a net loss of \$208,918 before transfers. This loss is a combination of costs related to tree trimming and removal in the runway approach zone at the airport and depreciation. Avigation easements and property were purchased adjacent to the airport with support from the Missouri Department of Transportation in the form of federal transportation grant funds for capital outlay related to land and avigation easement acquisitions. The City has continued plans to acquire easements and properties to help alleviate approach zone obstructions.
- The Utility Fund had a net gain of \$1,462,363 before transfers. The Utility Fund accounts for the operations of the electric and water utilities. The electric utility represented \$1,006,485 of the gain, while the water utility represented the other \$455,878. Electric Department operating income net of depreciation was \$1,497,957 for the current fiscal year compared to \$1,607,574 in the prior year. Water Department operating income net of depreciation was \$934,701 in the current year, compared to \$957,893 in the prior year. (Operating income does not include non-operating revenues and expenses such as interest, debt related items and gain or loss on assets).
- The Sewer Fund had a net loss of \$15,662 before transfers. This compares to a prior year net gain of \$4,064. Sewer department operating income net of depreciation was \$789,400, compared to \$775,485 in the prior year.

Net Operating Income
Figure 10



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. The total governmental fund balance at September 30, 2016, was \$7,466,625, compared to \$6,414,104 in the prior year, a 16% increase. The City has chosen to present the Special Allocation Fund and the District Municipal Fund combined under the non-major funds. Following is information for each of the major governmental funds.

General Fund

The General Fund is the chief operating fund of the City. As of September 30, 2016, the General Fund had a balance of \$3,810,888, of which \$2,776,241 is unassigned. 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 31% of total General Fund expenditures (capital and debt included) which is well above the minimum balance of 13% set in the City's financial policy and the 17% target operating reserve established in the FY2016 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, 2016, is \$28,660, of which the full balance is non-spendable or restricted. 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, 2016, is \$819,809. The fund balance is restricted for capital projects. 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, 2016, the balance of the Transient Guest Tax Fund is \$0. No minimum balance policy exists for this fund.

Storm Water and Parks Tax Fund

The Storm Water and Parks Tax Fund is used to account for resources designated to and expenses related to the capital storm water projects and operation of and capital improvements to the parks. The balance of the Storm Water and Parks Tax Fund at September 30, 2016, is \$1,523,798. Upon receipt, 25% of the tax revenue is transferred to the General Fund for the parks operations. The remaining funds are held in the Storm Water and Parks Tax Fund and restricted for capital projects. No minimum balance policy exists for this fund.

Transportation Tax Fund

The Transportation Tax Fund is used to account for resources designated to and expenses related to the construction and operation of the transportation system (e.g., roads, sidewalks, and airport). The balance of the Transportation Tax Fund at September 30, 2016, is \$(192,211). The fund balance is restricted, and no minimum balance policy exists for this fund. The Transportation Fund took an inter-fund loan from the General Fund to complete some projects in progress prior to the receipt of the tax revenues. This loan will be repaid in the ensuing fiscal year.

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. The total net position of the proprietary funds at September 30, 2016, is \$56,006,359. The unrestricted portion of the total net position equaled \$9,566,272, a 13% increase from September 30, 2015. Changes in individual funds were as follows:

Civic Complex Fund

The Civic Complex Fund, which consists of the Civic Center, Centene Center, Water Park, and Senior Center, has a total net position of \$12,041,833 at September 30, 2016, of which \$417,218 is unrestricted. This equates to 21% of operating expenses (depreciation and capital expenditures not included) in comparison to 23% at September 30, 2015. Changes in the fund for fiscal year ending September 30, 2016, were a decrease of \$844 and are attributable to normal operations.

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, 2016, is \$6,823,799. The amount that is unrestricted is \$6,885. This equates to 2% of operating expenses (depreciation and capital outlay not included) compared to 27% at September 30, 2015. This decrease is due to a decrease in operating subsidy. Both the General Fund and Transportation Tax Fund are eligible for transferring funds in support of the airport operations. Tree clearing in the amount of \$81,655 was performed at the airport during the year ended September 30, 2016. While this clearing is not an annual expense, additional costs are anticipated in the ensuing fiscal year.

Utility Fund

The Utility Fund accounts for the activities of the electric utility and water utility. Electric and water rates are set to cover the cost of operations, debt, and capital improvements. The Utility Fund total net position at September 30, 2016, is \$22,507,445. Of this amount, \$9,142,169 is unrestricted. This is a \$1,207,333, or 15%, increase over the prior year. The unrestricted amount equals 40% of operating expenditures (depreciation, capital outlay, and debt principal payments not included) compared to 35% at September 30, 2015. Increases in the fund balance are primarily due to user fees in excess of operating expenses. This differential is important for maintaining fund balances, providing funds for capital investment, payment of debt principal, and planning for future projects.

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 total net position at September 30, 2016, is \$14,633,282. There is no unrestricted net position in the Sewer Fund. All revenues generated are restricted for sewer use. Of the total net position, \$1,241,526 is held in restricted net position and \$13,391,756 is net investment in capital assets in comparison to \$1,633,972 restricted and \$13,014,972 net investment in capital assets the prior year. Changes in the fund for fiscal year ending September 30, 2016, were a decrease of \$15,662 and are attributable to variances in normal operations.

GENERAL FUND 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.

Differences between the original and final amended budget can be summarized as follows:

- The General Fund revenues budget was increased by \$907,800. Primary components of this increase include:
 - A \$365,000 increase in gain on sale of fixed asset to account for the sale of the previous library facility;
 - A \$314,000 increase in sales tax revenues based on increased economic activity;
 - A \$155,000 increase in insurance reimbursement revenue to account for final determination on storm damage claims;
 - A \$95,000 increase in storm water detention impact fees based on buyout options taken in new developments;
 - A \$28,000 increase in contributions from the St. Francois County 911 Center for dispatch operation support to increase the revenue to the final agreement amount;
 - A \$25,000 increase in lease proceeds related to final lease numbers on the capital lease for the rebuild of a fire truck;
 - A net increase of \$12,000 in public works permitting and publication fees based on increased development being completed;
 - A combined decrease of \$44,000 in court fines and costs to reflect actual collections being realized; and
 - A \$42,200 decrease in administrative payments in lieu of taxes from the utility and sewer funds based on revised revenue projections.
- The General Fund expenditures budget was increased by \$518,800. Primary components of this increase include:
 - An increase in personnel expenses of \$20,900 (combination of employee overtime, temporary labor, and uniform expense);
 - An \$89,000 increase in facilities repair and maintenance for the completion of repairs from the April 2015 hail storm;
 - A \$50,000 increase in parks system maintenance to cover increased facility maintenance costs;
 - A \$25,000 increase in nuisance abatement expense to cover costs anticipated to address identified derelict properties;
 - An \$18,000 increase in vehicle repair and tires for increased fleet maintenance costs;
 - A \$15,000 increase in dues and subscriptions primarily related to a pictometry agreement with St. Francois County;
 - A \$42,000 decrease in gas and oil expenses to account for continued lower gas prices; and
 - A \$75,000 decrease in insurance claims upon final information from storm damage claims;
 - An increase in the parks department capital budget of \$200,000 for additional park system replacement and improvements (parking lot paving and striping, dog park equipment, holiday light decorations, and history museum work);
 - An increase in police department capital budget in the amount of \$104,000 to account for paving and striping of the parking lot and increased costs related to the purchase of police cars;
 - An increase in the street department capital budget of \$40,000 for the addition to the budget of a digital information sign for construction projects and mosquito fogger equipment;
 - An increase in fire department equipment capital budget in the amount of \$27,000 to account for estimated additional costs on the pumper rebuild and other equipment purchases;
 - An increase in maintenance capital budget in the amount of \$26,000 for the construction of a new recycling center; and
 - Other various smaller adjustments in response to actual expense trends at the time of the amendment.

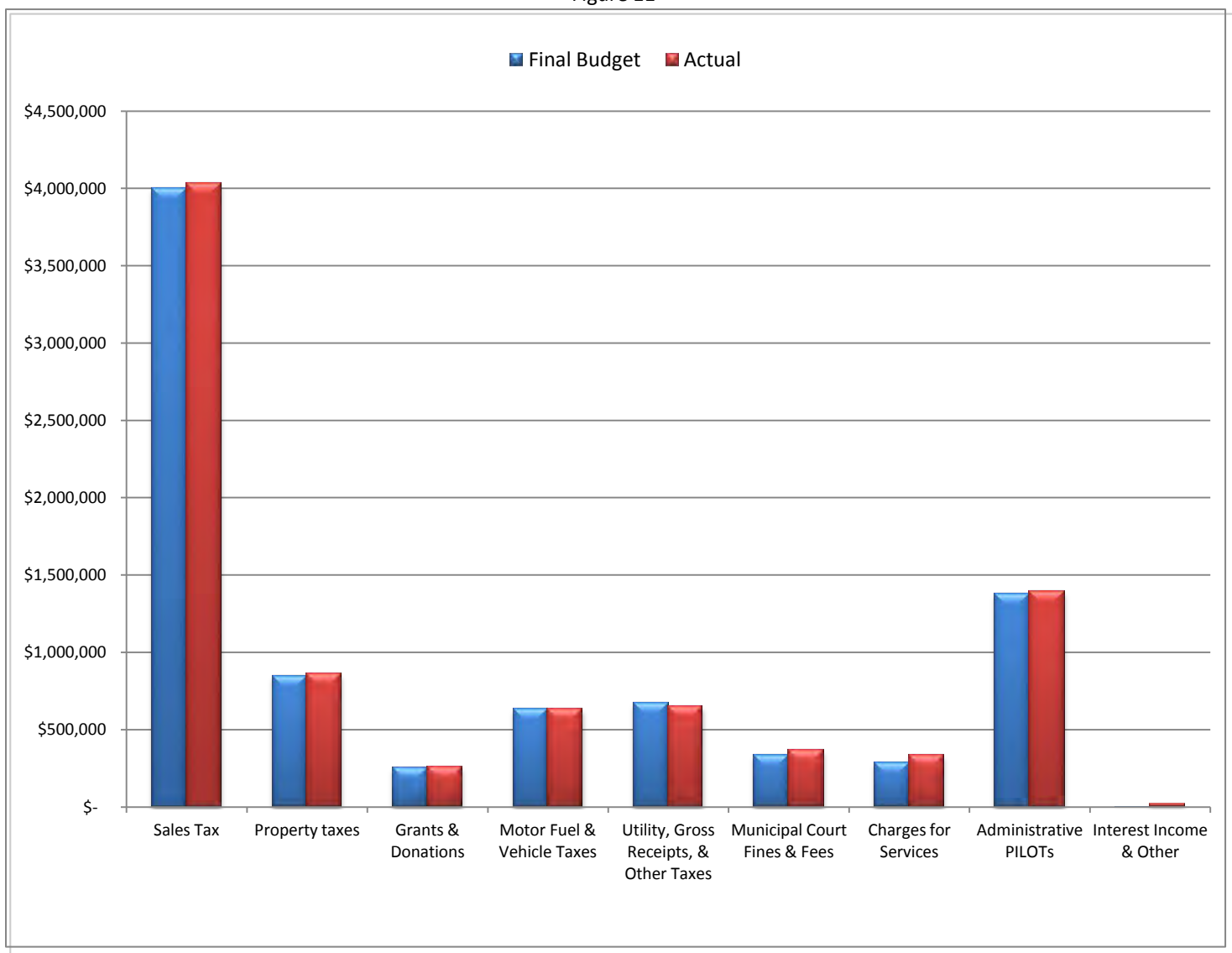
PERFORMANCE TO BUDGET – GENERAL FUND

Revenues

Actual revenues in the General Fund were \$130,564, or 1.6%, above budget. This variance consisted of the following major components:

- Actual charges for service were \$46,753 more than budgeted, while this consists of a variety of sources income from rentals and incident cost charges were the primary contributor to the variance;
- Actual sales tax revenues exceeded budget by \$32,516 due to increasing economic activity;
- Actual utility, gross receipts, and other taxes were \$25,593 under budget due to a decrease in the amount of gross receipts taxes received;
- Actual collections for the municipal court exceeded the amended budget by \$29,435; and
- Actual payments in lieu of taxes from the Utility and Sewer Funds exceeded budget by \$15,327 based on actual revenues of the funds.

General Fund Revenues
Final Budget versus Actual
Figure 11

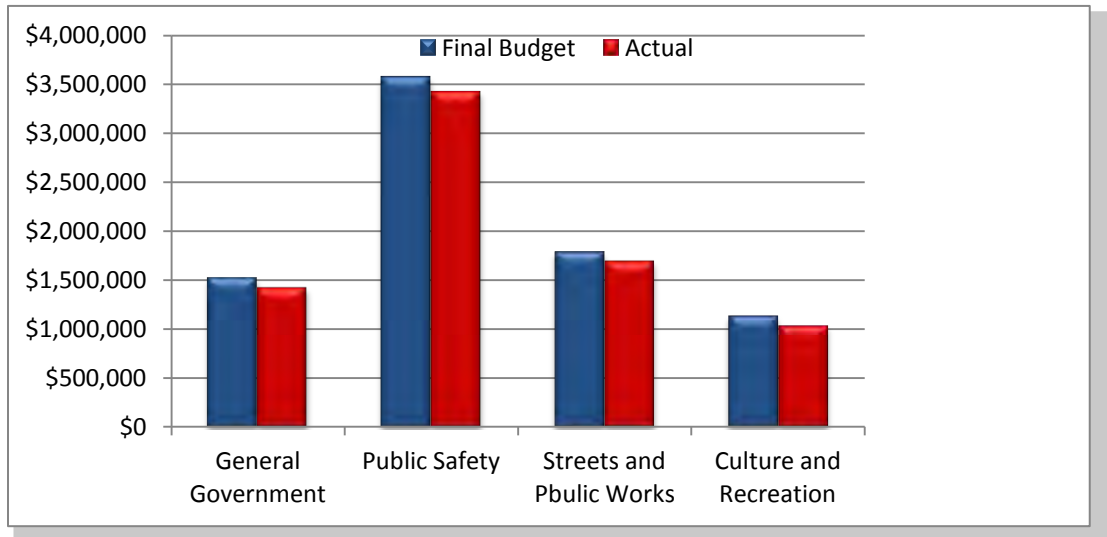


**MANAGEMENT DISCUSSION AND ANALYSIS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Expenditures

Actual expenditures of the General Fund were \$623,735, or approximately 6.4%, below budget. Of this amount, \$177,809 is related to capital expenditures below budgeted amounts. This is primarily due to capital projects which were either in progress or delayed. Actual to budget reviews are done on a monthly basis. Based on this monitoring, some projects or purchases may be postponed to a future budget year when practicable. Therefore, other expenditures below budget are a combination of projects in process and possible postponement of projects and purchases. The graph below depicts actual expenditures to the final budgeted expenditures by program area.

General Fund Expenditures
Final Budget versus Actual
Figure 12



CAPITAL ASSET ACTIVITY

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, totals \$70,755,651 (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 \$2,224,394, or 3.2%, increase over the prior year.

Figure 13 depicts a comparison to prior year of the capital assets net of depreciation (related debt not considered).

City of Farmington's Capital Assets
Figure 13

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and Land Improvements	\$ 2,716,846	\$ 2,716,845	\$ 1,966,613	\$ 854,362	\$ 4,683,459	\$ 3,571,207
Buildings and system	14,648,183	15,203,855	20,050,985	19,175,075	34,699,168	34,378,930
Equipment, Furniture, and Vehicles	7,623,257	6,907,109	4,195,284	3,487,640	11,818,541	10,394,749
Infrastructure	31,273,304	29,229,749	56,537,258	56,389,959	87,810,562	85,619,708
Construction in progress	0	0	1,000	0	1,000	0
Total	56,261,590	54,057,558	82,751,140	79,907,036	139,012,730	133,964,594
Less Accumulated Depreciation	18,152,109	16,904,235	33,001,593	30,741,051	51,153,702	47,645,286
Total	\$ 38,109,481	\$ 37,153,323	\$ 49,749,547	\$ 49,165,985	\$ 87,859,028	\$ 86,319,308

Major capital asset transactions during the year included the following:

Governmental Funds

In the governmental funds, a total of \$2,974,046 in new assets was added and a total of \$770,015 in assets was disposed during the year ended September 30, 2016.

These changes are comprised of:

- Culture and recreation asset increases in the amount of \$337,368 which includes completion of the new library, parks maintenance equipment, construction of new dog park, improvements to Engler Park, improvements to the sports complex and skate park, and a crew vehicle;
- General government asset increases in the amount of \$38,417 which includes the construction of a new recycling center and paving of a parking;
- Public safety asset increases in the amount of \$609,406 which includes improvements to the police station, three new police cruisers, and the rebuild of a fire pumper truck;
- Streets and public works asset increases in the amount of \$1,988,855 which includes multiple pieces of equipment, two new vehicles, and infrastructure improvements.
- Disposal of general government assets with a net cost (book less depreciation) of \$95,003 which includes a downtown building that was sold for offices and an outdated phone system;
- Disposal of culture and recreation assets with a net cost (book less depreciation) of \$215,875 which includes the former library and a bat wing mower;
- Disposal of public safety assets which includes a police car that was fully depreciated; and
- Disposal of streets and public works assets with a net cost (book less depreciation) of \$2,856 which includes a vibratory roller and outdated phone system.

Proprietary Funds

In the proprietary funds, a total of \$3,076,788 in assets was placed in service and a total of \$99,635 in assets was disposed during the year ended September 30, 2016.

These changes are comprised of:

- Airport asset additions in the amount of \$283,795 which consists of land and aviation easements;
- Civic Complex Fund asset additions in the amount of \$583,366 which includes fitness equipment, a grand piano, and water park improvements;
- Utility Fund asset additions in the amount of \$1,551,828 which consists of \$1,069,570 electric department assets (new substation, equipment, and vehicles) and \$482,258 water department assets (chlorine treatment equipment and water system improvements);
- Disposal of Utility Fund assets which includes two trenchers that were fully depreciated; and
- Sewer Fund asset additions in the amount of \$657,799 which includes sewer system improvements, treatment plant improvements, and a truck rebuild.

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

LONG-TERM DEBT

The City of Farmington's total debt decreased by \$1,120,175, 5.8%, 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 14

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue bonds	\$ 0	\$ 0	\$ 1,720,000	\$ 2,040,000	\$ 1,720,000	\$ 2,040,000
Due to State of Missouri	0	0	1,204,000	1,428,000	1,204,000	1,428,000
Certificates of Participation	7,060,000	7,865,000	3,362,600	3,725,000	10,422,600	11,590,000
Capital Leases	3,684,829	3,857,105	1,064,447	300,946	4,749,276	4,158,051
Total	<u>\$ 10,744,829</u>	<u>\$ 11,722,105</u>	<u>\$ 7,351,047</u>	<u>\$ 7,493,946</u>	<u>\$ 18,095,876</u>	<u>\$ 19,216,051</u>

New debt issued in the fiscal year ending September 30, 2016, included:

- Governmental activity capital lease in the amount of \$425,000 for the rebuild of a fire pumper;
- Utility Fund capital lease in the amount of \$950,000 for the construction of a new substation; and
- Sewer Fund debt in the amount of \$122,600 which represents a good faith deposit for a certificates of participation for sewer system improvements in the process of closing at the end of the fiscal year.

In July 2016, the City went through a rating review with Moody's Investors Service. Moody's affirmed the City's A1 long-term issuer rating and assigned a rating of A2 for an upcoming Certificates of Participation issue. Credit strengths noted include a moderately sized tax base that has experienced modest annual growth in each of the last ten years, healthy financial performance and metrics, and an experienced management team that adheres to formal financial policies.

State of Missouri Revised Statutes limit the amount of general obligation debt that a unit of government can issue to twenty percent (20%) of the total assessed value of taxable property located within that government's boundaries. The total assessed valuation as of October 2015 was \$201,053,502 resulting in a legal general obligation debt margin for the City of Farmington of \$40,210,700 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 five 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 five 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 ten 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 ten 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 6, 7, and 8 in the Notes to the Financial Statements.

ECONOMIC FACTORS

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

Sales Tax. Since Fiscal Year 2012, the City has been experiencing annual increases in sales tax receipts. The year ended September 30, 2016, showed an 6.2% increase in sales tax. This increase marks three consecutive years of strong increased sales tax revenue for the City, 6.2%, 8.4% and 6.6%. Based on development in the area and economic growth, the City anticipates increases to continue as the economy grows. However a somewhat slower rate of increase is anticipated. Therefore, the City remains conservative in its budgeted growth and expenditures for the ensuing fiscal year.

Property Tax. Property tax assessment is slightly increased for the upcoming fiscal year at \$0.4481 per \$100 of assessed valuation.

Unemployment. Unemployment in the area around the City on a three month rolling average consistently exceeded 10% from January 2009 until August 2011 when this average fell below the 10% mark. This rate has been on a continued downward trend. As of October 2016, the Farmington Micropolitan Area is currently experiencing an unemployment rate of 5.1% according to the Missouri Economic Resource and Information Center, the research division for the Missouri Department of Economic Development.

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 2015, the City experienced a slight decrease (0.1%) in wholesale power rates. The electric rate code includes a purchase power adjustment factor. The adjustment is applied to the billing when a three-month rolling average of the power cost is either in excess of 104% of the base power cost estimated for the fiscal year or is below 93% of the base power cost estimated. This adjustment helps protect the utility against significant losses because of increased wholesale rates due to unplanned outages and other economic issues, as well as providing an avenue to credit customers when power rate decreases are realized during the fiscal year. 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.

Business Environment. During Fiscal Year 2016, the City continued to see new retail stores and restaurants locate in Farmington. Major retailers that opened new stores in Farmington included Menard's Inc. and Hobby Lobby. Additionally, Farmington continues to see interest from regional and national leaders in the retail and restaurant industries.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2017

Governmental Activities

Budgeted revenues in the governmental funds (net of transfers and lease proceeds) are expected to decrease by 3.1% to approximately \$14.0 million. This decrease is due to the removal of a one-time project refund from the Missouri Department of Transportation that was received in the fiscal year ending September 30, 2016. A 5% percent payment in lieu of taxes from the Utility and Sewer Funds to the General Fund is budgeted.

Personnel expenses are budgeted to increase approximately 7% due to a combination of increases in employee pay and increased health insurance costs. General Fund operating and personnel expenditures combined (debt and capital not included) are expected to rise a total of 2.7%. Governmental funds capital investment is budgeted at approximately \$631,000 compared to approximately \$1,345,000 in the preceding fiscal year.

Business-Type Activities

Budgeted revenues in the proprietary funds are expected to increase to approximately \$31.7 million, a 4.4% increase over the prior year actual. The Civic Complex Fund revenues are budgeted to decrease in relation to prior year actual to an amount of \$1.7 million. The 5.5% reduction is directly related to a reduction in contributions. The Airport Fund operating revenues are expected to remain consistent at \$0.3 million, however an additional \$0.4 million is anticipated in grant revenues for property and easement acquisitions to eliminate existing obstructions and make place for the future runway extension. The Utility Fund revenue is expected to increase to \$25.7 million, an increase of approximately 1.4%. This increase is largely driven by an increase in estimated electric and water usage by citizens based on community growth. The Sewer Fund is budgeted to have revenues of approximately \$3.5 million, a 35% increase. This increase is due largely to a rate increase instituted to cover debt service payments for the new certificates of participation to be issued in October 2016 and an increase in usage due to community growth.

Budgeted expenditures (debt and capital not included) in the Civic Complex Fund are expected to increase approximately 2% over prior year actual. This increase is the net result of a 2% increase in both personnel related expenses and operating expenses. The personnel costs increase is driven by an increase in pay for full time employees due to advancement through the pay plan and an increase in health care insurance premiums. Budgeted operating expenditures in the Airport Fund are expected to decrease approximately 11%, primarily due to a decrease in approach zone clearing costs. Budgeted expenditures in the Utility Fund are expected to increase approximately 7% over the prior year actual. The increase is driven by a combination of increased operating costs and an increase in personnel costs. Purchased power costs are forecasted to increase approximately 6% over Fiscal Year 2016 actual. Sewer Fund expenditures (debt service not included) are budgeted to increase approximately 4% over the prior year actual. This increase is the result of an increase in personnel costs as previously described and increased operating costs due to normal operations.

REQUESTS FOR INFORMATION

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF NET POSITION
September 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash & Cash Equivalents	\$ 2,851,337	\$ 8,510,182	\$ 11,361,519
Receivables (Net)	1,859,984	3,471,988	5,331,972
Prepaid Expenses	37,806	80,183	117,989
Prepaid Interest	28,346	0	28,346
Due From Other Funds	684,692	0	684,692
Inventory	0	1,506,951	1,506,951
Total	5,462,165	13,569,304	19,031,469
Noncurrent Assets			
Restricted Assets:			
Cash & Cash Equivalents	3,698,477	90,898	3,789,375
Investments	12,000	2,119,301	2,131,301
Capital Assets (Net)			
Non Depreciable	2,266,942	1,967,613	4,234,555
Depreciable	35,842,539	47,781,934	83,624,473
Net Pension Asset	524,344	294,936	819,280
Total	42,344,302	52,254,682	94,598,984
TOTAL ASSETS	47,806,467	65,823,986	113,630,453
DEFERRED OUTFLOW OF RESOURCES			
Pension Related	1,761,182	990,667	2,751,849
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,761,182	990,667	2,751,849
LIABILITIES			
Current Liabilities			
Accounts Payable	739,509	1,763,580	2,503,089
Accrued Salaries	190,402	95,438	285,840
Accrued Interest	84,108	47,107	131,215
Taxes Payable	5,202	71,184	76,386
Protested Taxes	104,521	0	104,521
Due to Other Funds	449,575	235,117	684,692
Builder's Deposits	0	36,092	36,092
Other Payable	115,990	551,220	667,210
Current Portion of Long-Term Debt	1,518,487	1,434,899	2,953,386
Total	3,207,794	4,234,637	7,442,431
Long-Term Liabilities			
Customer Deposits Payable	0	469,875	469,875
Due to State of Missouri - State Revolving Fund	0	1,204,000	1,204,000
Bonds Payable	0	1,720,000	1,720,000
Capital Leases Payable	10,744,828	4,427,047	15,171,875
Less Current Maturities	(1,518,487)	(1,434,899)	(2,953,386)
Total	9,226,341	6,386,023	15,612,364
TOTAL LIABILITIES	12,434,135	10,620,660	23,054,795
DEFERRED INFLOW OF RESOURCES			
Administrative Expense Deposits	16,710	0	16,710
Civic Center Facility Use Deposits	0	7,855	7,855
Pension Related	319,614	179,779	499,393
TOTAL DEFERRED INFLOW OF RESOURCES	336,324	187,634	523,958
NET POSITION			
Net Investment in Capital Assets	26,939,653	43,815,998	70,755,651
Restricted for:			
Debt Service	314	981,404	981,718
Capital Projects	2,576,502	220,690	2,797,192
Nonspendable	66,152	0	66,152
Pensions	1,965,912	1,105,824	3,071,736
Utilities	0	5,000	5,000
Sewer	0	308,765	308,765
Tax Increment Finance District Projects	1,475,681	0	1,475,681
Unrestricted	3,772,976	9,568,678	13,341,654
TOTAL NET POSITION	\$ 36,797,190	\$ 56,006,359	\$ 92,803,549

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

CITY OF FARMINGTON, MISSOURI
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year Ended September 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position - Primary Government		
		Charges for Services	Capital Contributions and Grants	Operating Contributions and Grants	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government	\$ 2,911,160	\$ 15,812	\$ 0	\$ 0	\$ (2,895,348)	\$ 0	\$ (2,895,348)
Public Safety	3,984,893	388,688	0	242,736	(3,353,469)	0	(3,353,469)
Streets and Public Works	2,615,503	187,883	0	0	(2,427,620)	0	(2,427,620)
Culture and Recreation	1,504,112	107,205	0	15,458	(1,381,449)	0	(1,381,449)
Total Governmental Activities	11,015,668	699,588	0	258,194	(10,057,886)	0	(10,057,886)
Business-Type Activities:							
Airport	669,265	285,017	175,221	42	0	(208,985)	(208,985)
Electric	20,842,318	21,844,322	0	0	0	1,002,004	1,002,004
Water	3,027,345	3,421,603	0	0	0	394,258	394,258
Sewer	2,717,098	2,606,084	0	0	0	(111,014)	(111,014)
Civic Complex	2,542,793	1,517,134	31,625	263,379	0	(730,655)	(730,655)
Total Business-Type Activities	29,798,819	29,674,160	206,846	263,421	0	345,608	345,608
Total City Functions/Programs	\$ 40,814,487	\$ 30,373,748	\$ 206,846	\$ 521,615	(10,057,886)	345,608	(9,712,278)
General Revenues:							
Taxes							
Sales Taxes					7,953,672	0	7,953,672
Real and Personal Property Taxes					861,638	0	861,638
Motor Fuel and Vehicle Taxes					630,750	0	630,750
Gross Receipts Taxes					453,073	0	453,073
Transient Guest Tax (Hotel/Motel)					277,175	0	277,175
Utility and Other Taxes					194,834	0	194,834
TIF Proceeds					666,658	0	666,658
Administrative Pilot Payment					1,393,827	0	1,393,827
Interest Income					83,905	126,711	210,616
Insurance Proceeds					175,648	64,039	239,687
Gain/Loss on Disposal of Asset					186,155	0	186,155
Other					10,627	0	10,627
Special and Extraordinary Items					473,528	0	473,528
Transfers					(803,222)	803,222	0
Total General Revenues, Special Items and Transfers					12,558,268	993,972	13,552,240
Change in Net Position for the Year					2,500,382	1,339,580	3,839,962
Net Position - October 1, 2015 as restated					34,296,808	54,666,779	88,963,587
Net Position - September 30, 2016					\$ 36,797,190	\$ 56,006,359	\$ 92,803,549

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

CITY OF FARMINGTON, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2016

	Major Funds							
	General Fund	Debt Service Fund	Capital Projects Fund	Transient Tax Fund	Storm Water & Parks Tax Fund	Transportation Tax Fund	Non-Major Funds	Total Governmental Funds
ASSETS								
Cash & Cash Equivalents	\$ 2,851,337	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,851,337
Investments	0	0	0	0	0	0	0	0
Accounts Receivable (net)	990,896	0	283,736	42,200	141,840	141,840	259,472	1,859,984
Prepaid Expenses	37,806	0	0	0	0	0	0	37,806
Prepaid Interest	0	28,346	0	0	0	0	0	28,346
Due From Other Funds	540,117	0	0	0	0	0	144,575	684,692
Restricted Assets:								
Cash & Investments	12,000	84,422	576,048	309,261	1,426,567	25,612	1,276,567	3,710,477
Total Assets	4,432,156	112,768	859,784	351,461	1,568,407	167,452	1,680,614	9,172,642
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0	0	0	0	0
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 4,432,156</u>	<u>\$ 112,768</u>	<u>\$ 859,784</u>	<u>\$ 351,461</u>	<u>\$ 1,568,407</u>	<u>\$ 167,452</u>	<u>\$ 1,680,614</u>	<u>\$ 9,172,642</u>
LIABILITIES								
Accounts Payable	\$ 125,200	\$ 0	\$ 0	\$ 351,461	\$ 32,285	\$ 42,340	\$ 188,223	\$ 739,509
Accrued Salaries	190,402	0	0	0	0	0	0	190,402
Accrued Interest Payable	0	84,108	0	0	0	0	0	84,108
Taxes Payable	5,202	0	0	0	0	0	0	5,202
Protested Taxes	104,521	0	0	0	0	0	0	104,521
Due to Other Funds	79,953	0	39,975	0	12,324	317,323	0	449,575
Other Liabilities	115,990	0	0	0	0	0	0	115,990
Total Liabilities	621,268	84,108	39,975	351,461	44,609	359,663	188,223	1,689,307
DEFERRED INFLOWS OF RESOURCES	0	0	0	0	0	0	16,710	16,710
Administrative Expense Deposits	0	0	0	0	0	0	16,710	16,710
Total Deferred Inflows of Resources	0	0	0	0	0	0	16,710	16,710
FUND BALANCE								
Nonspendable								
Prepays	37,806	28,346	0	0	0	0	0	66,152
Restricted								
Debt Service	0	314	0	0	0	0	0	314
Capital Projects	425,106	0	638,909	0	1,523,798	(192,211)	0	2,395,602
Karsch-Downtown TIF District	0	0	0	0	0	0	1,129,465	1,129,465
Highway 67 TIF District	0	0	0	0	0	0	346,216	346,216
Committed								
Acquisition/Improvement of Public Spaces	53,022	0	0	0	0	0	0	53,022
Assigned								
Fiscal Year 2017 Budget	0	0	180,900	0	0	0	0	180,900
Other Purposes	289,768	0	0	0	0	0	0	289,768
Storm Water Improvements	175,878	0	0	0	0	0	0	175,878
Wilson Rozier Ballpark	53,067	0	0	0	0	0	0	53,067
Unassigned	2,776,241	0	0	0	0	0	0	2,776,241
Total Fund Balances	3,810,888	28,660	819,809	0	1,523,798	(192,211)	1,475,681	7,466,625
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u>\$ 4,432,156</u>	<u>\$ 112,768</u>	<u>\$ 859,784</u>	<u>\$ 351,461</u>	<u>\$ 1,568,407</u>	<u>\$ 167,452</u>	<u>\$ 1,680,614</u>	<u>\$ 9,172,642</u>
Amounts reported for governmental activities in the statement of net position are different because:								
Total Fund Balance - Governmental Funds								\$ 7,466,625
Pensions - Net pension assets, pension related deferred outflows and pension related deferred inflows are not current financial resources and liabilities and therefore are not reported in the funds								
Net Pension Asset					524,344			
Deferred Outflows					1,761,182			
Deferred Inflows					(319,614)			
								1,965,912
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.								
Governmental capital assets					56,261,590			
Less accumulated depreciation					(18,152,109)			
								38,109,481
Long-term liabilities, including leases payable, and loans payable are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.								
Leases Payable					(10,744,828)			
								(10,744,828)
Net Position of Governmental Activities								<u>\$ 36,797,190</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
GOVERNMENTAL FUNDS
Year Ended September 30, 2016

	Major Funds							
	General Fund	Debt Service Fund	Capital Projects Fund	Transient Tax Fund	Storm Water & Parks Tax Fund	Transportation Tax Fund	Non-Major Funds	Total Governmental Funds
REVENUES								
Sales Tax	\$ 4,032,516	\$ 0	\$ 1,961,022	\$ 0	\$ 980,067	\$ 980,067	\$ 0	\$ 7,953,672
Real and Personal Property Tax	861,638	0	0	0	0	0	0	861,638
Grants and Donations	258,194	0	0	0	0	0	0	258,194
Motor Fuel and Vehicle Tax	630,750	0	0	0	0	0	0	630,750
Utility, Gross Receipts & Other Taxes	647,907	0	0	0	0	0	0	647,907
Charges for Services	334,453	0	0	0	0	0	0	334,453
Municipal Court Fines & Fees	365,135	0	0	0	0	0	0	365,135
Transient Guest (Hotel/Motel) Tax	0	0	0	277,175	0	0	0	277,175
Interest Income	10,517	65,450	2,531	375	1,930	1,158	1,944	83,905
TIF Proceeds From Other Governments	0	0	0	0	0	0	666,658	666,658
Administrative Pilot Payment	1,393,827	0	0	0	0	0	0	1,393,827
Other	10,627	0	0	0	0	0	0	10,627
Total Operating Revenues	8,545,564	65,450	1,963,553	277,550	981,997	981,225	668,602	13,483,941
EXPENSES								
General Government								
Administration	1,424,223	0	0	0	0	0	670,016	2,094,239
Tourism	0	0	0	277,550	0	0	0	277,550
Public Safety								
Police	2,348,523	0	0	0	0	0	0	2,348,523
Municipal Court	97,898	0	0	0	0	0	0	97,898
Fire	977,079	122,610	0	0	0	0	0	1,099,689
Streets and Public Works								
Street	705,861	0	0	0	0	0	0	705,861
Public Works	391,541	0	0	0	0	0	0	391,541
Maintenance	599,657	0	0	0	0	0	0	599,657
Culture and Recreation								
Park	678,259	0	0	0	0	0	0	678,259
Library	356,157	176,565	0	0	0	0	0	532,722
Capital Outlay	1,167,191	0	27,083	0	243,698	1,517,277	12,550	2,967,799
Debt Service-Principal	330,276	1,072,000	0	0	0	0	0	1,402,276
Total Expenses	9,076,665	1,371,175	27,083	277,550	243,698	1,517,277	682,566	13,196,014
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(531,101)	(1,305,725)	1,936,470	0	738,299	(536,052)	(13,964)	287,927
OTHER FINANCING SOURCES (USES)								
Transfer In	587,097	1,302,947	0	0	0	0	805,445	2,695,489
Transfer Out	(701,729)	0	(1,958,862)	0	(329,647)	(186,791)	(321,682)	(3,498,711)
Gain/Loss on Asset	408,640	0	0	0	0	0	85,000	493,640
Lease Proceeds	425,000	0	0	0	0	0	0	425,000
Insurance Proceeds	175,648	0	0	0	0	0	0	175,648
Special and Extraordinary Items	0	0	0	0	473,528	0	0	473,528
Total Other Financing Sources And Uses	894,656	1,302,947	(1,958,862)	0	143,881	(186,791)	568,763	764,594
NET CHANGE IN FUND BALANCES	363,555	(2,778)	(22,392)	0	882,180	(722,843)	554,799	1,052,521
FUND BALANCES - OCTOBER 1, 2015 AS RESTATED	3,447,333	31,438	842,201	0	641,618	530,632	920,882	6,414,104
FUND BALANCES - SEPTEMBER 30, 2016	\$ 3,810,888	\$ 28,660	\$ 819,809	\$ 0	\$ 1,523,798	\$ (192,211)	\$ 1,475,681	\$ 7,466,625

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, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,052,521
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	2,974,047
Depreciation	(1,704,154)
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	(770,015)
Accumulated Depreciation	456,281
Principal payments on long-term liabilities of governmental funds are expensed. However on the Government-Wide Statement of Activities they are shown as a reduction of debt.	1,402,276
Proceeds from the issuance of long-term debt are reported as providing current financial resources in governmental funds, but are reported as long-term debt in the government-wide financial statements.	(425,000)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Pension Expense	(485,574)
Change in Net Position of Governmental Activities as Reported on the Statement of Activities	<u>\$ 2,500,382</u>

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

September 30, 2016

	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
ASSETS					
Current Assets:					
Cash & Cash Equivalents	\$ 442,436	\$ 27,470	\$ 7,685,787	\$ 354,489	\$ 8,510,182
Accounts Receivable	27,652	187,349	2,907,120	349,867	3,471,988
Prepays	5,763	597	67,835	5,988	80,183
Due From Other Funds	0	0	0	0	0
Inventory	0	32,050	1,332,948	141,953	1,506,951
Total Current	475,851	247,466	11,993,690	852,297	13,569,304
NonCurrent Assets:					
Restricted Assets:					
Cash & Cash Equivalents	0	0	90,898	0	90,898
Investments	0	0	493,015	1,626,286	2,119,301
Capital Assets (Net of Accumulated Depreciation)	11,409,594	6,786,196	15,605,969	15,947,788	49,749,547
Net Pension Asset	57,351	8,193	147,467	81,925	294,936
Total NonCurrent	11,466,945	6,794,389	16,337,349	17,655,999	52,254,682
Total Assets	11,942,796	7,041,855	28,331,039	18,508,296	65,823,986
DEFERRED OUTFLOW OF RESOURCES					
Pension Related	192,628	27,519	495,334	275,186	990,667
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	12,135,424	7,069,374	28,826,373	18,783,482	66,814,653
LIABILITIES					
Current Liabilities:					
Accounts Payable	15,029	2,737	1,630,034	115,780	1,763,580
Accrued Salaries	22,670	1,446	45,996	25,326	95,438
Accrued Interest	0	0	38,377	8,730	47,107
Taxes Payable	868	45	69,580	691	71,184
Due to Other Funds	0	235,117	0	0	235,117
Builder's Deposits	0	0	36,092	0	36,092
Other Liabilities	12,211	1,236	470,669	67,104	551,220
Current Portion of Long-Term Debt	0	0	595,279	468,020	1,063,299
Total	50,778	240,581	2,886,027	685,651	3,863,037
Long-Term Liabilities:					
Customer Deposits Payable	0	0	469,875	0	469,875
Due to State of Missouri - State Revolving Fund	0	0	0	1,204,000	1,204,000
Revenue Bonds Payable	0	0	0	1,720,000	1,720,000
Capital Leases Payable	0	0	3,468,415	958,632	4,427,047
Less Current Maturities	0	0	(595,279)	(468,020)	(1,063,299)
Total	0	0	3,343,011	3,414,612	6,757,623
Total Liabilities	50,778	240,581	6,229,038	4,100,263	10,620,660
DEFERRED INFLOW OF RESOURCES					
Civic Center Facility Use Deposits	7,855	0	0	0	7,855
Pension Related	34,958	4,994	89,890	49,937	179,779
Total Deferred Inflow of Resources	42,813	4,994	89,890	49,937	187,634
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	93,591	245,575	6,318,928	4,150,200	10,808,294
NET POSITION					
Net Investment in Capital Assets	11,409,594	6,786,196	12,228,452	13,391,756	43,815,998
Restricted	215,021	30,718	1,136,824	1,241,526	2,624,089
Unrestricted	417,218	6,885	9,142,169	0	9,566,272
TOTAL NET POSITION	\$ 12,041,833	\$ 6,823,799	\$ 22,507,445	\$ 14,633,282	\$ 56,006,359

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

CITY OF FARMINGTON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2016

	Enterprise Funds				
	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>OPERATING REVENUES</u>					
Charges for Services:					
Civic Complex Charges	\$ 1,517,134	\$ 0	\$ 0	\$ 0	\$ 1,517,134
Airport Charges	0	285,017	0	0	285,017
Electric Charges	0	0	21,844,322	0	21,844,322
Water Charges	0	0	3,421,603	0	3,421,603
Sewer Charges	0	0	0	2,606,084	2,606,084
Total Operating Revenues	1,517,134	285,017	25,265,925	2,606,084	29,674,160
<u>OPERATING EXPENSES</u>					
Civic Complex Expenses	2,027,352	0	0	0	2,027,352
Airport Expenses	0	368,993	0	0	368,993
Electric Expenses	0	0	20,346,365	0	20,346,365
Water Expenses	0	0	2,486,902	0	2,486,902
Sewer Expenses	0	0	0	1,816,684	1,816,684
Depreciation	515,441	300,272	921,583	755,930	2,493,226
Total Operating Expenses	2,542,793	669,265	23,754,850	2,572,614	29,539,522
OPERATING INCOME (LOSS)	(1,025,659)	(384,248)	1,511,075	33,470	134,638
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Grant Income	168,972	175,221	0	0	344,193
Contributions	126,032	42	0	0	126,074
Interest and Investment Income	543	67	34,670	91,431	126,711
Bond Fees	0	0	(4,613)	(11,932)	(16,545)
Interest Expense	0	0	(110,200)	(132,552)	(242,752)
Insurance Proceeds and Settlements	28,687	0	31,431	3,921	64,039
Gain or Loss on Disposal of Assets	0	0	0	0	0
Total Nonoperating Revenues (Expenses)	324,234	175,330	(48,712)	(49,132)	401,720
NET INCOME (LOSS) BEFORE TRANSFERS	(701,425)	(208,918)	1,462,363	(15,662)	536,358
<u>TRANSFERS</u>					
Transfers In	700,581	102,641	0	0	803,222
Transfers Out	0	0	0	0	0
Total Transfers	700,581	102,641	0	0	803,222
CHANGE IN NET POSITION	(844)	(106,277)	1,462,363	(15,662)	1,339,580
NET POSITION - OCTOBER 1, 2015	12,042,677	6,930,076	21,045,082	14,648,944	54,666,779
NET POSITION - SEPTEMBER 30, 2016	\$ 12,041,833	\$ 6,823,799	\$ 22,507,445	\$ 14,633,282	\$ 56,006,359

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, 2016

	Civic Complex Fund	Airport Fund	Utility Fund	Sewer Fund	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 1,524,253	\$ 330,541	\$ 25,100,922	\$ 2,541,100	\$ 29,496,816
Payments to Suppliers	(1,033,426)	(346,522)	(20,992,603)	(1,012,526)	(23,385,077)
Payments to or on Behalf of Employees	(973,947)	(46,254)	(1,375,712)	(739,153)	(3,135,066)
Net Cash Provided (Used) By Operating Activities	(483,120)	(62,235)	2,732,607	789,421	2,976,673
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers In	700,581	102,641	0	0	803,222
Transfers Out	0	0	0	0	0
Contributions and Operating Grants	295,005	42	0	0	295,047
Insurance Proceeds, Settlements and Other	28,687	0	31,431	3,921	64,039
Loans To/From Other Funds	0	227,496	175,648	0	403,144
Net Cash Provided (Used) For Noncapital Financing Activities	1,024,273	330,179	207,079	3,921	1,565,452
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Capital Grant Receipts	0	18,254	0	0	18,254
Principal Payments on Long-Term Debt Net of Applied Reserves	0	0	433,415	(576,314)	(142,899)
Interest Paid	0	0	(110,200)	(132,552)	(242,752)
Bond Fees	0	0	(4,613)	(11,932)	(16,545)
Capital Assets - Acquisition, Sale & Disposal	(583,365)	(283,795)	(1,551,828)	(657,799)	(3,076,787)
Net Cash Used For Capital & Related Financing Activities	(583,365)	(265,541)	(1,233,226)	(1,378,597)	(3,460,729)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemption of Investments	0	0	0	0	0
Investment Earnings/(Loss)	543	67	21,698	182,748	205,056
Net Cash Provided by Investing Activities	543	67	21,698	182,748	205,056
Net Change in Cash and Cash Equivalents	(41,669)	2,470	1,728,158	(402,507)	1,286,452
Cash and Cash Equivalent Balances at October 1, 2015	484,105	25,000	6,048,527	756,996	7,314,628
Cash and Cash Equivalent Balances at September 30, 2016	\$ 442,436	\$ 27,470	\$ 7,776,685	\$ 354,489	\$ 8,601,080
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (1,025,659)	\$ (384,248)	\$ 1,511,075	\$ 33,470	\$ 134,638
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation Expense	515,441	300,272	921,583	755,930	\$ 2,493,226
Pension Expense	53,110	7,587	136,569	75,871	\$ 273,137
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows					
Accounts Receivable	7,119	45,524	(203,615)	(64,984)	\$ (215,956)
Prepays	(489)	222	(3,777)	(618)	\$ (4,662)
Inventory	0	11,666	(37,474)	(92,205)	\$ (118,013)
Accounts Payable & Other Payables	(14,224)	(42,386)	397,924	101,690	\$ 443,004
Customer and Builder Deposits Payable	0	0	38,613	0	\$ 38,613
Accrued Salaries and Compensated Absences	(18,418)	(872)	(28,291)	(19,733)	\$ (67,314)
Net Cash Provided (Used) by Operating Activities	<u>\$ (483,120)</u>	<u>\$ (62,235)</u>	<u>\$ 2,732,607</u>	<u>\$ 789,421</u>	<u>\$ 2,976,673</u>

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

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. Following are other legally separate organizations which have been examined to determine if their inclusion is necessary to fairly present the financial position and activities of the City.

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 statement 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) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The City utilizes the following funds:

Governmental Fund Types:

While the City could report the Debt Service Fund, Transient Tax Fund, Storm Water and Parks Fund, and Transportation Fund in aggregate with the District Municipal Fund and Special Allocation Fund under non-major funds, City officials believe it is important that the financial information for these four funds be presented separately for accountability. Therefore, the City reports the following major governmental funds:

General Fund - The General Fund is the primary fund of the City. It is used to account for all financial resources not accounted for and reported in another fund.

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.

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 and sidewalks within the City and construction, reconstructions, repair and maintenance of the municipal airport.

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.

The following funds are reported in aggregate under non-major governmental funds:

District Municipal Fund – The District Municipal Fund is used to account for the financial resources related to multiple tax sharing agreements.

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.

Proprietary Fund Types:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

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

1. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The excess amount of demand deposits and certificates of deposit not covered by FDIC insurance are required to be 100% collateralized. Obligations that may be pledged as collateral include the same type as those authorized for investment by the City. All legal requirements were met during the year ended September 30, 2016.

2. 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.

3. Property Tax Recognition

Property assessed values are determined by the St. Francois County Assessor. The City levied a property tax at the rate of \$0.4440 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.

4. 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.

5. 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, pensions 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.

6. 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 actual cost or estimated historical cost and comprehensively reported in the government-wide financial statements. If actual cost was not available, historical cost was estimated using a price deflator related to the assets' year of acquisition. Donated capital assets acquired prior to October 1, 2015, are recorded at estimated fair value at the date of donation. Donated capital assets acquired after October 1, 2015, are recorded at acquisition value.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

7. Deferred Outflows of Resources

The consumption of net position or fund balance in one period that is applicable to a future reporting period is recorded as a deferred outflow of resources. The City has deferred outflows of resources as of September 30, 2016, representative of the difference between projected and actual earnings on pension plan investments, the difference in pension asset due to changes in assumptions, and the pension plan payments made subsequent to the pension plan measurement date of June 30, 2016. Additional information on deferred outflows can be found in Note 9.

8. 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.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri Local Government Employees Retirement System (LAGERS) and additions to/deductions from LAGERS fiduciary net position have been determined on the same basis as they are reported by LAGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Additional information on pensions can be found in Note 15.

10. 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.

11. Long-Term Debt

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

12. Deferred Inflows of Resources

The acquisitions 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, prepayment of facility deposits at the Civic Center for future use, and the difference between expected and actual experience of the total pension liability. Additional information on deferred inflows can be found in Note 9.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

13. 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, Municipal District 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 these sources by external resource providers such as creditors, grantors, contributors, or laws or regulation of other governments or b) imposed by law through the constitutional provisions or enabling legislation.
- *Committed fund balances* are those amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution.
- *Assigned fund balances* are any amounts for which it is the City's intent that the funds be used for specific purposes, but no legal or binding restrictions or commitments exist. 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.

The fund balance classifications for the governmental funds at September 30, 2016, are:

FUND BALANCES	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSIENT GUEST TAX FUND	STORMWATER & PARKS TAX FUND	TRANSPOR- TATION TAX FUND	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Non-spendable								
Prepays	\$ 37,806	\$ 28,346	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 66,152
Restricted								
Debt Service	0	314	0	0	0	0	0	314
Capital Projects	425,106	0	638,909	0	1,523,798	(192,211)	0	2,395,602
Karsch-Downtown TIF District	0	0	0	0	0	0	1,129,465	1,129,465
Highway 67 TIF District	0	0	0	0	0	0	346,216	346,216
	425,106	314	638,909	0	1,523,798	(192,211)	1,475,681	3,871,597
Committed								
Improvement of Public Spaces	53,022	0	0	0	0	0	0	53,022
Assigned								
Fiscal Year 2016 Budget	0	0	180,900	0	0	0	0	180,900
Other Purposes	289,768	0	0	0	0	0	0	289,768
Stormwater Improvements	175,878	0	0	0	0	0	0	175,878
Wilson Rozier Ball park	53,067	0	0	0	0	0	0	53,067
	518,713	0	180,900	0	0	0	0	699,613
Unassigned	2,776,241	0	0	0	0	0	0	2,776,241
Total Fund Balances	<u>\$ 3,810,888</u>	<u>\$ 28,660</u>	<u>\$ 819,809</u>	<u>\$ 0</u>	<u>\$ 1,523,798</u>	<u>\$ (192,211)</u>	<u>\$ 1,475,681</u>	<u>\$ 7,466,625</u>

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

14. 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 net of funds remaining in the project account. As of September 30, 2016, the City had a total of \$70,755,651 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, 2016, the City's restricted net position of \$8,706,244 is comprised of debt service, capital projects, pensions, sewer, and tax increment financing. Governmental activities restricted net position at September 30, 2016, is \$6,084,561. Restricted net position of the business-type activities totals \$2,621,683.
- ***Unrestricted net position*** is the residual and represents amounts available for future operations or distribution. Government wide unrestricted net position at September 30, 2016, is \$13,341,654.

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, 2016, was prepared and adopted using the modified accrual basis of accounting for governmental funds and accrual accounting for proprietary funds.

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

- Actual expenditures of the Transient Guest Tax Fund exceeded budgeted expenditures by \$27,050 or approximately 10.8% over budget. This excess expenditure is driven by an equivalent positive variance in revenue.
- Actual expenditures of the Transportation Fund exceeded budgeted expenditures by \$117,277, or 8.4%.

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 a payment in lieu of taxes for management and accounting services rendered by the General Fund and use of easements. The percent remitted for the year ending September 30, 2016, is 5%.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

H. Future Accounting Pronouncements

This report does not incorporate GASB Statement No. 77, *Tax Abatement Disclosure*; GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*; GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*; GASB Statement No. 81, *Irrevocable Split-Interest Agreement*; GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*; GASB Statement No. 83, *Certain Asset Retirement Obligation*; and GASB Statement No. 84, *Fiduciary Activities* will be adopted in future accounting periods as required. The City will adopt and implement these statements when required.

I. Adoption of New Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board adopted Statement No. 72, *Fair Value Measurement and Application*. This statement addressing accounting and financial reporting issues related to fair value measurements of certain assets and liabilities provides guidance for fair value measurements and increases comparability of assets between governmental organizations, so that financial statement readers will be able to determine how the values of the assets and liabilities were measured, as well as the reliability of those measurements. This statement has been implemented with no affect on the financial statements. Information regarding the fair value measurement is included in the Fair Value Measurement paragraph of Note 2.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government* are all adopted with no affect on the financial statements and footnotes.

J. Prior Period Adjustments

One prior period adjustment was made in connection with the financial statements contained hereinto reverse a governmental non-major fund accrued payable for which it was determined that some requirements of the agreement were not fully met.

	Governmental Activities	Business-type Activities	Total
Net Position at September 30, 2015	\$ 34,242,102	\$ 54,666,779	\$ 88,908,881
Release of Payable	54,706	0	54,706
Net Position at September 30, 2015 - Restated	\$ 34,296,808	\$ 54,666,779	\$ 88,963,587

K. Special and Extraordinary Items

A special item is an event that is unusual in nature or infrequent in occurrence. The GASB has defined infrequent in occurrence as an underlying event or transaction that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates. The City had one such event for the year ending September 30, 2016. This event is a project refund from the Missouri Department of Transportation in the amount of \$473,528.

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 flow purposes, these are considered cash equivalents. Deposits and investments are stated at either cost or fair value based on which best approximates market. Restricted investments include amounts held in trust as required by certain bond covenants and certificates of deposit with maturities of greater than three months.

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

Missouri statutes require that the depository institution must collateralize all funds on deposit in financial institutions with appropriate securities to the extent not provided by FDIC insurance. At September 30, 2016, 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, 2016, the bank balances in the City's checking accounts were \$14,088,184. Pledged securities held by the bank in the City's name had a market value of \$16,255,597.

Total cash and investments, as of September 30, 2016, consist of the following:

Type	Amount	Reconciliation to the Statement of Net Position	
Cash on Hand	\$ 1,184	Current Assets	
Deposits	13,097,554	Cash and Cash Equivalents	\$ 11,361,519
Money Market Accounts	2,174,757	Investments	0
Certificates of Deposit	17,000		11,361,519
Money Market Mutual Funds	124,731	Noncurrent Assets	
State & Local Government Bonds	395	Cash and Cash Equivalents - Restricted	3,789,375
Guaranteed Investment Contracts	1,341,325	Investments	2,131,301
United States Treasury Notes	525,249		5,920,676
Total Deposits and Investments	<u>\$ 17,282,195</u>		<u>\$ 17,282,195</u>

Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The below chart identifies the City's recurring fair value measurements as of September 30, 2016. All investments are valued using market prices (Level 1).

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. These funds are classified as restricted on the balance sheet and statement of net position because their use is limited by debt covenants or other statutory provisions. The funds are maintained in separate bank accounts. At September 30, 2016, the balance of the restricted assets is \$5,920,676.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

NOTE 2 – CASH AND INVESTMENTS-continued

Interest Rate Risks and Credit Risks

Interest rate risk is the risk that the fair value of investments will fall due to changes in general interest rates. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's. The maturities of investments and credit quality ratings held by the City at September 30, 2016, are shown in the chart below.

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	124,731	124,731	0	0	AAAm
State & Local Government Bonds*	395	0	395	0	AA+
Guaranteed Investment Contracts**	1,341,325	0	1,341,325	0	AA+
United States Treasury Notes***	525,249	0	525,249	0	AA+

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

** While the Guaranteed Investment Contracts mature in 1-5 years, it should be noted that this investment type is not subject to interest rate risk.

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

NOTE 3– ACCOUNTS RECEIVABLE AND PAYABLE

Accounts Receivable

In the governmental funds, the majority of the accounts receivable balance consists of sales and fuel tax revenues due from the state, municipal court receivables, economic activity taxes due to the Tax Increment Finance Districts from outside entities, grant reimbursements, and cost-sharing payments due from Farmington R-7 School District. Other receivables due include property taxes, hotel taxes, and prefunded flexible spending account monies due from employees. 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. Utility receivables are recorded when the earning process is complete and services have been provided. Other receivables due include Civic Center memberships, payments for airport fuel purchases, airport rentals/leases, and Missouri Department of Transportation grant reimbursements.

The City considers these accounts receivable fully collectible, except for the municipal court and property tax receivables. Therefore, an allowance of \$466,407 is recorded for uncollectable balances (municipal court receivables uncollectable allowance of \$451,039; property tax receivables uncollectable allowance balance of \$15,368).

Accounts receivable balances at September 30, 2016, 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	\$ 692,045	\$ 22,993	\$ 742,265	\$ 1,457,303	\$ 466,407	\$ 990,896
Capital Projects	0	0	283,736	283,736	0	283,736
TIF & Tax Sharing Agreements	259,472	0	0	259,472	0	259,472
Transient Tax	0	0	42,200	42,200	0	42,200
Stormwater and Parks Tax	0	0	141,840	141,840	0	141,840
Transportation Tax	0	0	141,840	141,840	0	141,840
Total Governmental Activities	<u>\$ 951,517</u>	<u>\$ 22,993</u>	<u>\$ 1,351,881</u>	<u>\$ 2,326,391</u>	<u>\$ 466,407</u>	<u>\$ 1,859,984</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

NOTE 3 – ACCOUNTS RECEIVABLE AND PAYABLE - continued

	<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>
Business-Type Activities:						
Civic Complex	\$ 27,652	\$ 0	\$ 0	\$ 27,652	\$ 0	\$ 27,652
Airport	12,128	175,221	0	187,349	0	187,349
Water and Electric Utility	2,907,120	0	0	2,907,120	0	2,907,120
Sewer Utility	349,867	0	0	349,867	0	349,867
Total Business-Type Activities	<u>\$ 3,296,767</u>	<u>\$ 175,221</u>	<u>\$ 0</u>	<u>\$ 3,471,988</u>	<u>\$ 0</u>	<u>\$ 3,471,988</u>

Accounts Payable

Accounts payable balances consist of amounts due 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 as of September 30, 2016, have been accrued. Governmental activities reported payables in the amount of \$1,019,221. Business-type activities reported payables in the amount of \$1,977,309, of which \$1,313,022 was due to a single vendor for the electric utility's purchase of power for the month of September.

Payable balances at September 30, 2016, are as follows:

	<u>Payments to Vendors</u>	<u>Payments to Employees</u>	<u>Interest Payable</u>	<u>Taxes Payable</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 125,200	\$ 190,402	\$ 0	\$ 5,202	\$ 320,804
Debt Service	0	0	84,108	0	84,108
Capital Projects	0	0	0	0	0
TIF & Tax Sharing Agreements	188,223	0	0	0	188,223
Transient Tax	351,461	0	0	0	351,461
Stormwater & Parks Tax	32,285	0	0	0	32,285
Transportation Tax	42,340	0	0	0	42,340
Total Governmental Activities	<u>\$ 739,509</u>	<u>\$ 190,402</u>	<u>\$ 84,108</u>	<u>\$ 5,202</u>	<u>\$ 1,019,221</u>

	<u>Payments to Vendors</u>	<u>Payments to Employees</u>	<u>Interest Payable</u>	<u>Taxes Payable</u>	<u>Total Payables</u>
Business-Type Activities:					
Civic Complex	\$ 15,029	\$ 22,670	\$ 0	\$ 868	\$ 38,567
Airport	2,737	1,446	0	45	4,228
Water and Electric Utility	1,630,034	45,996	38,377	69,580	1,783,987
Sewer Utility	115,780	25,326	8,730	691	150,527
Total Business-Type Activities	<u>\$ 1,763,580</u>	<u>\$ 95,438</u>	<u>\$ 47,107</u>	<u>\$ 71,184</u>	<u>\$ 1,977,309</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

NOTE 4 – 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 \$4,197,380. Depreciation is charged to the following functions in the statement of activities as follows:

Function/Program	Current Depreciation	
	Governmental Activities	Business-Type Activities
General Government	\$ 53,796	\$ 0
Public Safety	438,783	0
Streets and Public Works	918,444	0
Culture and Recreation	293,131	0
Civic Complex	0	515,441
Airport	0	300,272
Electric	0	495,953
Water	0	425,630
Sewer	0	755,930
Total	<u>\$ 1,704,154</u>	<u>\$ 2,493,226</u>

Changes in fixed assets for the governmental activities are as follows for the year ended September 30, 2016:

	Balance, September 30, 2015	Additions	Deletions	Balance, September 30, 2016
<u>Governmental Activities:</u>				
Capital Assets, not depreciated				
Land	\$ 2,266,942	\$ 0	\$ 0	\$ 2,266,942
Construction in Progress	0	0	0	0
Total Capital Assets, not depreciated	2,266,942	0	0	2,266,942
Capital Assets, depreciated				
Buildings	15,203,855	120,476	676,148	14,648,183
Land Improvements	449,904	0	0	449,904
Infrastructure	29,229,749	2,043,555	0	31,273,304
Furniture, Machinery & Equip	2,805,743	496,979	62,792	3,239,930
Vehicles	4,101,366	313,036	31,075	4,383,327
	51,790,617	2,974,046	770,015	53,994,648
Less Accumulated Depreciation	16,904,236	1,704,154	456,281	18,152,109
Total Capital Assets, depreciated	34,886,381	1,269,892	313,734	35,842,539
Capital Assets, Net	<u>\$ 37,153,323</u>	<u>\$ 1,269,892</u>	<u>\$ 313,734</u>	<u>\$ 38,109,481</u>

Changes in fixed assets for the proprietary activities are as follows for the year ended September 30, 2016:

	Balance, September 30, 2015	Additions	Deletions	Balance, September 30, 2016
<u>Proprietary Activities:</u>				
Capital Assets, not depreciated				
Land	\$ 854,362	\$ 1,112,251	\$ 0	\$ 1,966,613
Construction in Progress	0	1,000	0	1,000
Total Capital Assets, not depreciated	854,362	1,113,251	0	1,967,613
Capital Assets, depreciated				
Buildings	20,050,985	0	0	20,050,985
Infrastructure	55,014,290	1,622,603	99,635	56,537,258
Furniture, Machinery & Equip	2,219,078	236,877	0	2,455,955
Vehicles	1,635,272	104,057	0	1,739,329
	78,919,625	1,963,537	99,635	80,783,527
Less Accumulated Depreciation	30,608,002	2,493,226	99,635	33,001,593
Total Capital Assets, depreciated	48,311,623	(529,689)	0	47,781,934
Capital Assets, Net	<u>\$ 49,165,985</u>	<u>\$ 583,562</u>	<u>\$ 0</u>	<u>\$ 49,749,547</u>

NOTE 5 – OPERATING LEASES

The City has an operating lease on the land at the Senior Center. The lease term is from October 2009 through September 2029. Annual rent is \$1,200. The future minimum rental payments for the future years are as follows:

<u>Year Ended September 30</u>	<u>Total</u>
2017	\$ 1,200
2018	1,200
2019	1,200
2020	1,200
2021	1,200
2022-2026	6,000
2027-2029	3,600
Total Minimum Rental Payments	\$ 15,600

NOTE 6 – CAPITAL LEASES

Governmental Activities:

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

Certificates of Participation

On March 25, 2014, the City entered into a capital lease with US Bank National Association to finance the construction of a new municipal library, renovations to the current police station, and additions to the Water Park. Under the arrangement, the bank issued certificates of participation in the amount of \$8,650,000. 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 \$785,000 to \$960,000. Interest is payable each October 1st and April 1st at 2.0% to 3.1%. The debt payment schedule anticipates final payment and retirement of the debt April 1, 2024. At September 30, 2016, there remains an unpaid balance of \$7,060,000.

Capital Lease Obligations

The fire station project lease was entered into on September 10, 2009, with Missouri Association of Municipal Utilities in the amount of \$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 difference between projected interest and actual interest is applied to the principal upon reconciliation each year. This has resulted in a revised final payment date of December 20, 2028. The balance at September 30, 2016, is \$3,043,000.

The City entered into a capital lease with US Bancorp on February 24, 2014, for the purchase of a 2014 Pierce Quantum PUC Rescue Pumper Fire Apparatus. Lease payments are due in three annual installments of \$278,527, which include interest at an interest rate of 1.21%. The debt payment schedule anticipated an initial payment due February 24, 2015, with final payment and retirement of the debt February 24, 2017. At September 30, 2016, there is a principal balance of \$275,197.

In June 2016, the City added Property Schedule 3 in the amount of \$425,000 to the Master lease with US Bancorp dated February 24, 2014. The added schedule provides for the rebuild of a Pierce Pumper truck. Lease payments are due in monthly installments of \$12,058, which include interest at an interest rate of 1.456%. The debt payment schedule anticipated an initial payment due June 1, 2016, with final payment and retirement of the debt May 1, 2019. At September 30, 2016, there is a principal balance of \$366,631.

NOTE 6 – CAPITAL LEASES - continued

Business-Type Activities:

The City entered into capital leases to finance improvements for the wastewater treatment system equipment and infrastructure, water system improvements, and construction of an electric substation. 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, which began 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, 2016, is \$3,240,000, of which \$2,640,000 is allocated to the utility fund for the water system and \$600,000 is allocated to the sewer fund.

In September 2016, the City received a good faith deposit of \$122,600 toward the issue of certificates of participation in the amount of \$6,130,000 for improvements to the waste water system. This issued was finalized subsequent to the end of the fiscal year on October 6, 2016. A capital lease liability is included in the financial statements for the \$122,600.

Capital Lease Obligations

The City entered into a capital lease with US Bancorp on April 1, 2015, for the purchase of a Sewer Vactor Truck with sewer line cleaning equipment in the amount of \$327,211. Lease payments are due in monthly installments of \$5,792, which include interest at an interest rate of 1.69%. The debt payment schedule anticipated an initial payment due June 1, 2015, with final payment and retirement of the debt April 1, 2020. At September 30, 2016, there is a principal balance of \$236,032.

The City entered into a capital lease with FS Leasing LLC on January 6, 2016, for \$950,000 to be used for the construction of an electric substation. Lease payments are due in monthly installments of \$16,596, which include interest at an interest rate of 1.84%. The debt payment schedule anticipated an initial payment due February 6, 2016, with final payment and retirement of the debt on December 6, 2020. At September 30, 2016, there is a principal balance of \$828,416.

Future minimum lease obligations (including interest payments) and the net present value of these minimum lease payments as of September 30, 2016, are as follows:

Year Ended September 30	Governmental Activities	Business-Type Activities	Total
2017	\$ 1,720,967	\$ 1,004,307	\$ 2,725,274
2018	1,445,233	881,707	2,326,940
2019	1,384,993	885,227	2,270,220
2020	1,299,990	858,079	2,158,069
2021	1,297,711	1,244,513	2,542,224
2022-2026	4,521,456	0	4,521,456
2027-2029	910,688	0	910,688
Total Minimum Lease Payments	12,581,038	4,873,833	17,454,871
Less Amount Representing Interest & Fees	1,836,210	446,785	2,282,995
Present Value of Minimum Lease Payments	\$ 10,744,828	\$ 4,427,048	\$ 15,171,876

**NOTES TO FINANCIAL STATEMENTS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

NOTE 6 – CAPITAL LEASES - continued

Assets under capital leases at September 30, 2016, include:

<u>Asset Type</u>	<u>Asset Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and Buildings	\$ 13,552,760	\$ 861,814	\$ 12,690,946
Infrastructure	959,893	0	959,893
Machinery and Equipment	7,607,840	1,451,988	6,155,852
Total Assets Under Capital Lease	\$ 22,120,493	\$ 2,313,802	\$ 19,806,691

NOTE 7 – LONG-TERM DEBT

Revenue Bonds

Series 2000 Sewer System Refunding Revenue Bonds with an original issue of \$4,950,000 dated April 1, 2000, is due in annual installments ranging from \$45,000 to \$360,000 through July 1, 2021. Interest is payable each January 1st and July 1st at 4.6% to 5.7%. The balance at September 30, 2016, was \$1,720,000. The bonds are to be repaid solely through sewer system revenues. The bond covenants, which require 110% coverage of the debt service for each fiscal year, were met.

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>
2017	\$ 330,000	\$ 97,038
2018	335,000	78,722
2019	345,000	59,962
2020	350,000	40,470
2021	360,000	20,520
Total	<u>\$ 1,720,000</u>	<u>\$ 296,712</u>

Due to the State of Missouri

When the City used the Series 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 2016, the City paid back \$224,000. As of September 30, 2016, the balance due to the State is \$1,204,000. 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>
2017	\$ 231,000
2018	234,500
2019	241,500
2020	245,000
2021	252,000
Total	<u>\$ 1,204,000</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Balance September 30, 2015	Additions	Deductions	Balance September 30, 2016	Current Portion
Governmental Activities:					
Capital Leases					
Firestation Lease	\$ 3,310,000	\$ 0	\$ (267,000)	\$ 3,043,000	\$ 283,000
Fire Pumper Lease	547,105	0	(271,907)	275,198	275,198
Fire Pumper Rebuild	0	425,000	(58,369)	366,631	140,289
Certificates of Participation					
Series 2014 - Library, Police Station & Water Park Improvements	7,865,000	0	(805,000)	7,060,000	820,000
Total Governmental Activities	<u>\$ 11,722,105</u>	<u>\$ 425,000</u>	<u>\$ (1,402,276)</u>	<u>\$ 10,744,829</u>	<u>\$ 1,518,487</u>

	Balance September 30, 2015	Additions	Deductions	Balance September 30, 2016	Current Portion
Business-Type Activities:					
Capital Leases					
Sewer Vactor Truck	\$ 300,946	\$ 0	\$ (64,914)	\$ 236,032	\$ 66,020
COP Sr2011-Radionuclide Project	3,035,000	0	(395,000)	2,640,000	410,000
COP Sr2011-Treatment Plant UV Project	690,000	0	(90,000)	600,000	90,000
Electric Substation	0	950,000	(121,585)	828,415	185,279
COP Sr2016 -Sewer System	0	122,600	0	122,600	122,600
Revenue Bonds					
Series 2000A - West Treatment Plant	2,040,000	0	(320,000)	1,720,000	330,000
Due to State of Missouri	1,428,000	0	(224,000)	1,204,000	231,000
Customer Deposits	437,666	32,209	0	469,875	0
Total Business-Type Activities	<u>\$ 7,931,612</u>	<u>\$ 1,104,809</u>	<u>\$ (1,215,499)</u>	<u>\$ 7,820,922</u>	<u>\$ 1,434,899</u>

Based on the October 2015 assessed valuation report from the St. Francois County Assessor, the City's assessed value supports a general obligation bond limit of \$40,210,700. The City did not have any general obligation bonds outstanding as of September 30, 2016.

NOTE 9 – DEFERRED AMOUNTS RELATED TO NET POSITION

Governmental activities report deferred outflows of resources in the amount of \$1,761,182. This consists of the following:

Category	Balance September 30, 2015	Additions	Deductions & Amortizations	Balance September 30, 2016
Payments made subsequent to measurement date of June 30th	\$ 85,030	\$ 85,303	\$ (85,030)	\$ 85,303
Change in assumptions (Pensions)	0	388,049	(67,142)	320,907
Net difference between projected and actual earnings on investments (Pensions)	611,642	1,120,301	(376,971)	1,354,972
	<u>\$ 696,672</u>	<u>\$ 1,593,653</u>	<u>\$ (529,143)</u>	<u>\$ 1,761,182</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FARMINGTON, MISSOURI
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

NOTE 9 – DEFERRED AMOUNTS RELATED TO NET POSITION - continued

Governmental activities report deferred inflows of resources in the amount of \$336,324. This consists of the following:

Category	Balance September 30, 2015	Additions	Deductions & Amortizations	Balance September 30, 2016
Developer deposits to cover administrative cost (TIF Projects)	\$ 16,710	\$ 0	\$ 0	\$ 16,710
Difference between expected and actual experience (Pensions)	199,238	190,256	(69,880)	319,614
	<u>\$ 215,948</u>	<u>\$ 190,256</u>	<u>\$ (69,880)</u>	<u>\$ 336,324</u>

Business-type activities report deferred outflows of resources in the amount of \$990,667. This consists of the following:

Category	Balance September 30, 2015	Additions	Deductions & Amortizations	Balance September 30, 2016
Payments made subsequent to measurement date of June 30th (Pensions)	\$ 47,830	\$ 47,983	\$ (47,830)	\$ 47,983
Change in assumptions (Pensions)	0	218,278	(37,767)	180,511
Net difference between projected and actual earnings on investments (Pensions)	344,049	630,170	(212,046)	762,173
	<u>\$ 391,879</u>	<u>\$ 896,431</u>	<u>\$ (297,643)</u>	<u>\$ 990,667</u>

Business-type activities report deferred inflows of resources in the amount of \$187,634. This consists of the following:

Category	Balance September 30, 2015	Additions	Deductions & Amortizations	Balance September 30, 2016
Deposits for future facility use (Civic Center)	\$ 7,610	\$ 7,855	\$ (7,610)	\$ 7,855
Difference between expected and actual experience (Pensions)	112,071	107,018	(39,310)	179,779
	<u>\$ 119,681</u>	<u>\$ 114,873</u>	<u>\$ (46,920)</u>	<u>\$ 187,634</u>

NOTE 10 – INTEREST EXPENSE

During the year ended September 30, 2016, \$490,808 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:

Function	Amount
Culture & Recreation	\$ 148,063
Public Safety	99,993
Electric Utility	11,182
Water Utility	99,018
Sewer Utility	132,552
	<u>\$ 490,808</u>

NOTE 11 – INTER-FUND TRANSACTIONS

Inter-Fund Receivables and Payables

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, 2016.

- A temporary loan in the amount of \$305,000 is owed to the General Fund from the Transportation Tax Fund which is payable upon receipt of sales tax payments in the ensuing fiscal year.
- A temporary loan in the amount of \$235,117 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.
- The non-major funds (Special Allocation Fund and District Municipal Fund) are owed a total of \$144,574 for those monies required to be transferred as incremental economic activity taxes under the tax increment financing development plan and tax-sharing agreements. This balance includes amounts for taxes accrued as of September 30, 2016. The amounts owed from each major fund are: General Fund \$79,953, Storm Water & Parks Fund \$12,324, Transportation Fund \$12,323, and Capital Projects Fund \$39,975.

Inter-fund Transfers

During the year ended September 30, 2016, 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	Capital Projects	\$ 341,600	Capital tax funds used for payment of the Fire Pumper lease
General	Storm Water & Parks	245,497	Parks operating costs transfer
Debt Service	Special Allocation	321,683	Firestation Debt Payment
Debt Service	Capital Projects	981,265	Certificates of Participation payments
District Municipal	General	195,393	Tax sharing agreement transfers
District Municipal	Capital Projects	95,619	Tax sharing agreement transfers
Special Allocation	General	230,755	Tax increment finance districts incremental EATS tax
Special Allocation	Storm Water & Parks	84,150	Tax increment finance districts incremental EATS tax
Special Allocation	Transportation	84,150	Tax increment finance districts incremental EATS tax
Special Allocation	Capital Projects	115,377	Tax increment finance districts incremental EATS tax
Civic Complex	Capital Projects	425,000	Capital tax funds used for payment of capital projects
Civic Complex	General	275,581	Operating subsidy and reserves replenishment
Airport	Transportation	102,641	Operations support and capital grant match
Sewer	Capital Projects	115,000	Capital improvements at treatment plant

NOTE 12 – CONCENTRATION OF REVENUE

Approximately 19.5% of the sales tax revenue of the City is generated by one customer.

NOTE 13 – MUNICIPAL COURT TRAFFIC VIOLATIONS FINES AND COSTS

Missouri Revised Statute 479.359.1 requires that municipalities annually calculate the percentage of annual general operating revenue received from fines, bond forfeitures, and court costs for minor traffic violations, including amended charges for any minor traffic violations. Any funds generated from fines and court costs for traffic violations, including amended charges, which are in excess of 30% of the annual general operating revenue of a City, must be sent to the director of the department of revenue for distribution to the schools within the county.

NOTE 13 – MUNICIPAL COURT TRAFFIC VIOLATIONS FINES AND COSTS - continued

In section 479.350 of the Missouri Revised Statutes, the following definitions are given. "Annual general operating revenue" is defined as revenue that can be used to pay any bill or obligation of a county, city, town, or village, including general sales tax; general use tax; general property tax; fees from licenses and permits; unrestricted user fees; fines, court costs, bond forfeitures, and penalties. "Court costs" are defined as costs, fees, or surcharges which are retained by a county, city, town, or village upon a finding of guilty or plea of guilty, and shall exclude any costs, fees, or surcharges disbursed to the state or other entities by a county, city, town, or village. "Minor traffic violation" is defined as a violation of a municipal or county ordinance that is prosecuted and does not involve an accident or injury, that does not involve the operation of a commercial motor vehicle, and for which the department of revenue is authorized to assess no more than four points to a person's driving record upon conviction. Minor traffic violation shall exclude a violation for exceeding the speed limit by more than nineteen miles per hour or a violation occurring within a construction zone or school zone.

The City's general operating revenue, as calculated below, for the year ending September 30, 2016, is \$33,319,992, of which \$365,135, 1.1%, represents monies received from all Municipal Court Fines and Fees. Therefore, it is evident that the "minor traffic violation" amount is well below the 30% threshold.

<u>Revenue Source</u>	<u>Amount</u>
Charges for Services	
Governmental Activities	\$ 699,588
Business-Type Activities	27,068,076
Taxes	
General Sales Tax	4,032,516
Real & Personal Property Tax	861,638
Gross Receipts Taxes	453,073
Utility & Other Taxes	194,834
Other	10,267
	<u>\$ 33,319,992</u>

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 of Farmington defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City of Farmington participates in the Missouri Local Government Employees Retirement System (LAGERS). LAGERS is an agent multiple-employer, statewide public employee pension plan established in 1967 and administered in accordance with RSMo. 70.600-70.755. As such, it is LAGERS responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt. The responsibility for the operations and administration of

NOTE 15 – RETIREMENT PLAN - continued

LAGERS is vested in the LAGERS Board of Trustees consisting of seven persons. LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the LAGERS website at www.molagers.org.

Benefits Provided

LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing LAGERS. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 (55 for police and fire) with 5 or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55 (50 for police and fire) and receive a reduced allowance.

	<u>2016 Valuation</u>
Benefit Multiplier:	1.5% for life, plus 0.5% to age 65
Final Average Salary:	3 Years
Member Contributions:	0%

Benefit terms provide for annual post retirement adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustment is based on the increase in the Consumer Price Index and is limited to 4% per year.

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	49
Active employees	<u>124</u>
	<u>230</u>

Contributions

The City is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance an unfunded accrued liability. Full-time employees of the City do not contribute to the pension plan. City contribution rates are 10.4% (General), 7.9% (Police) and 9.1% (Fire) of annual covered payroll.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 29, 2016.

Actuarial Assumptions

The total pension liability in the February 29, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation, 2.5% price inflation
Salary Increase	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%

NOTE 15 – RETIREMENT PLAN - continued

The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees mortality table for males and females.

Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The actuarial assumptions used in the February 29, 2016, valuation were based on the results of an actuarial experience study for the period March 1, 2010, through February 28, 2015.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	43.00%	5.29%
Fixed Income	26.00%	2.23%
Real Assets	21.00%	3.31%
Strategic Assets	10.00%	5.73%

Discount Rate

The discount rate used to measure the total pension liability is 7.25% for General and Police and 7.14% for Fire. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Changes in the Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balances at 6/30/2015	\$ 20,413,512	\$ 23,466,717	\$ (3,053,205)
Changes for the year:			
Service Cost	494,790	0	494,790
Interest	1,469,673	0	1,469,673
Difference between expected and actual experience	(297,274)	0	(297,274)
Changes in assumptions	606,327		606,327
Contributions - City	0	503,863	(503,863)
Contributions - Employees	0	0	0
Net investment income	0	(73,051)	73,051
Benefit payments, including refunds	(784,185)	(784,185)	0
Administrative expense	0	(17,418)	17,418
Other changes	0	(373,803)	373,803
Net changes	1,489,331	(744,594)	2,233,925
Balances at 6/30/2016	\$ 21,902,843	\$ 22,722,123	\$ (819,280)

NOTE 15 – RETIREMENT PLAN - continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the City, calculated using the discount rate of 7.25%, as well as what the City's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

Sensitivity of Net Pension Liability/(Asset) to the Single Discount Rate

	1% Decrease 6.25%	Current Single Discount Rate Assumption 7.25%	1% Increase 8.25%
Total Pension Liability (TPL)	\$ 25,362,677	\$ 21,902,843	\$ 19,085,405
Plan Fiduciary Net Position	22,722,123	22,722,123	22,722,123
Net Pension Liability/(Asset) (NPL)	\$ 2,640,554	\$ (819,280)	\$ (3,636,718)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$1,263,000. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

Deferred Outflows and Deferred Inflows of Resources by Source
To Be Recognized in Future Pension Expense

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		\$ (499,393)
Changes in Assumptions	\$ 501,418	
Net Difference between projected and actual earnings on pension plan investments	2,117,145	
Employer contributions subsequent to the measurement date	133,286	
Total	<u>\$ 2,751,849</u>	<u>\$ (499,393)</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending September 30, 2017.

NOTE 15 – RETIREMENT PLAN - continued

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	Net Deferred Outflows of Resources
2017	\$ 584,736
2018	584,736
2019	584,735
2020	347,036
2021	10,869
Thereafter	7,058
Total	\$ 2,119,170

Payable to the Pension Plan

At September 30, 2016, the City of Farmington reported a payable of \$65,728 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2016.

NOTE 16 – TAX INCREMENT FINANCING, COMMUNITY IMPROVEMENT DISTRICTS, & TAX SHARING AGREEMENTS

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.

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

NOTE 16 – TAX INCREMENT FINANCING, COMMUNITY IMPROVEMENT DISTRICTS, & TAX SHARING AGREEMENTS - cont.

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.

Open development agreements as of September 30, 2016, include:

- A development agreement with Stetty Properties LLC, approved on September 11, 2014, to reimburse project costs related to the historic preservation of property located at 19 and 23 East Columbia Street. Reimbursement costs are to be paid from the funds on deposit from the District's economic activity tax and are limited to \$129,000. As of September 30, 2016, a balance of \$15,000 remains open on this agreement.
- A development agreement with 1 North Jefferson LLC, approved on August 11, 2016, to reimburse project costs not to exceed the lesser of \$50,000; or 50% of the cost of qualifying exterior restoration or renovation costs associated with the work, or 25% of the cost of architectural and historical assessment and design costs associated with work on the building located at 1 North Jefferson Street. No payments for qualifying work have been made as of September 30, 2016.
- A development agreement with Stetty Properties LLC, approved on March 28, 2016, to reimburse project costs related to the historic preservation of the property located at 3 N Jefferson Street. Reimbursement costs are to be paid from the funds on deposit from the District's economic activity tax and are limited to \$50,000. No payments have been made on this agreement as of September 30, 2016.
- A development agreement with Farmington Masonic Lodge #132, approved on May 12, 2016, to reimburse project costs not to exceed the lesser of either \$50,000; or 50% of the cost of qualifying exterior restoration or renovation costs associated with the work or 25% of the cost of architectural and historical assessment and design costs associated with work on the building located at 211 West Columbia Street. No payments have been made on this agreement as of September 30, 2016.
- A development agreement with Red Rock Apartments LLC, approved on June 9, 2016, to reimburse project costs not to exceed the lesser of either \$50,000; or 50% of the cost of qualifying exterior restoration or renovation costs associated with the work or 25% of the cost of architectural and historical assessment and design costs associated with work on the building located at 113 East Columbia Street. No payments have been made on this agreement as of September 30, 2016.

As of September 30, 2016, no TIF bonds have been issued by the City of Farmington for the Karsch-Downtown TIF District projects.

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, 2008, and 2015. The plan consisted of two redevelopment projects including retail and commercial development, as well as public infrastructure improvements. The total cost of the redevelopment project was estimated to be approximately \$124,050,000.

NOTE 16 – TAX INCREMENT FINANCING, COMMUNITY IMPROVEMENT DISTRICTS, & TAX SHARING AGREEMENTS - cont.

The plan proposed to use community improvement districts as well as tax increment financing obligations to fund a part of the redevelopment costs. The total TIF and CID obligations were not to 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 anticipated funding redevelopment projects on a pay as you go method. The City, however, could decide to fund several projects up front, and therefore, the plan estimated an annual interest rate of 6.25% on the maximum amount of potential bonds to be issued.

It was 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 anticipated 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 allocated 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 could 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 was 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 all PILOTS are now declared surplus.

In February 2014, the City approved 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. (Menards is a home-improvement store with over 280 stores in 14 states at the time of the agreements). The agreements were in reference to the purchase of 24.96 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). The Developer and the City entered into an agreement under which the developer will receive \$4,850,000 (plus an interest factor) on a pay-as-you-go basis. All previously outstanding TIF notes are cancelled. The current agreements increased the maximum annual payout of the EATs increment from 40% to 100%. This development agreement is the only open agreement for this TIF district. No payments have been made on this agreement as of September 30, 2016.

An amendment to the TIF plan approved by City Council on March 23, 2015, included the remove of all property not incorporated by the Menards' Project Sub-Area from the district boundary and amended the plan total project costs to \$24,300,000 with anticipated reimbursable project costs of \$6,300,000.

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 provided for the capture of 67.5% of the one cent general sales tax and one-half cent capital improvement sales tax

NOTE 16 – TAX INCREMENT FINANCING, COMMUNITY IMPROVEMENT DISTRICTS, & TAX SHARING AGREEMENTS - cont.

generated by the site. The agreement further limited 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%.

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 sold the building, which was renovated for the opening of a Schnuck's Market in November 2014. Schnuck's Markets Inc. is a regional leader in the supermarket industry operating over 100 stores in 5 states.

At the May 18, 2015, council meeting, the City Council approved an assignment, assumption, and consent agreement between SM Properties Farmington LLC, DDC Farmington Property LLC, GPMVLC Community Improvement District, and the City of Farmington which assigned the rights to the above agreement to DDC Farmington Property LLC. As of September 30, 2016, additional retail stores have opened in the development, and there remains a reimbursable balance of \$2,188,295.

Mineral Area Community Improvement District

On December 11, 2014, the City Council adopted an ordinance establishing the Mineral Area Community Improvement District (CID) for the purpose of providing public assistance to eliminate blighted conditions including the redevelopment of streets and storm water to improve safety and traffic control. The district includes approximately 18.5 acres encompassing the Mineral Area Shopping Center and adjacent outlots. At that same meeting, the City Council approved a development agreement between the CID, Jones Farmington Properties LLC and the City. The CID agreement authorizes the District to impose a maximum one percent (1%) sales tax and a maximum real property tax of \$1.00 per \$100 of assessed valuation, as well as a special assessment of twenty-five cents (\$0.25) per square foot of land in a given tax year. Proceeds from the imposed taxes and assessment will be used to reimburse eligible costs as defined by the agreement. On June 22, 2015, the City Council re-authorized the Community Improvement District first approved on December 11, 2014 and the development agreement. (The developer failed to convene the Community Improvement District Board of Directors to ratify the original redevelopment agreement within ninety (90) days as stipulated which triggered an automatic termination of the Community Improvement District.)

Farmington Land ABG Community Improvement District

On February 12, 2015, the City Council approved a CID and a redevelopment agreement to establish the Farmington Land ABG Community Improvement District on property located on US Highway 67 for the purpose of providing public assistance to eliminate blighted conditions and assist in the development of the property. The major tenant for the site was a planned Rural King retail store. The redevelopment agreement by and between the City of Farmington, the Farmington Land ABG Community Improvement District (CID), and Farmington ABG, LLC provided certain public assistance to the CID to assist the developer with funds necessary to eliminate the blighted conditions. 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 to reimburse the developer for the actual cost plus interest for the eligible project expenses up to a maximum reimbursable amount of \$2,700,000. The term of the agreement is twenty years. As of September 30, 2016, no payments have been made to the developer under this agreement.

NOTE 17 – INDUSTRIAL REVENUE BONDS

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

NOTE 17 – INDUSTRIAL REVENUE BONDS - continued

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, 2016, is \$1,400,000. 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, 2016. 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.

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 Lease

On October 6, 2016, the City closed on an issue of \$6,130,000 of Capital Improvement Certificates of Participation, proceeds from which will be used for the acquisition, construction, furnishing and equipping of various improvements and expansions to the City's sewerage system. Payments on these certificates are payable from sewer revenues budgeted and appropriated during the fiscal year. The lease payments are due in installments ranging from \$560,000 to \$670,000, with the first principal payment due October 1, 2017, and final retirement of the debt October 1, 2026. Interest is payable each April 1st and October 1st at 2.0% to 2.25%. However, the payments required on the certificates do not constitute an obligation of the city in any fiscal year subsequent to a fiscal year in which the city has appropriated funds for debt service.

Airport Land Acquisitions, Easement Acquisitions, and Property Donation

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 ten properties and eight avigation easement as of September 30, 2016. Current project plans include the acquisition of an additional seven avigation easements and one property. At the November 28, 2016, council meeting, the City Council approved the purchase of one of the avigation easements. At the December 8, 2016, council meeting, the City Council approved the property purchase. At the November 10, 2016, council meeting, the City Council approved a resolution accepting the donation of property from Burgco, LLC. The property, located adjacent to the airport, is vacant commercial land with a market value of \$400,000.

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, 2016, the City had deposits of \$14,088,184 at this financial institution.

In August of 2015, a local construction company, which the City has used for various construction projects for many years, established an employee stock ownership plan (ESOP). In becoming an ESOP, the company was required to have outside directors. In early 2016, the Mayor was asked to become an outside director. His first official capacity as director was an ESOP meeting on July 19, 2016. As an outside director, the Mayor's responsibilities include attending semi-annual meetings to review the overall performance of the company and review management.

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, 2016, the Mayor had no balance due on account for hangar space rental.

During the year ended September 30, 2016, the City leased rental property to City employees. The properties were purchased for future expansions and have been leased short term. One employee was paying \$500 per month based on market. As of September 30, 2016, there was a receivable in the amount of \$500 for the leased property.

NOTE 21– NET POSITION RESTRICTED BY ENABLING LEGISLATION

The amount of net position restricted by enabling legislation at September 30, 2016, is as follows:

Fund	Net Position
Capital Projects	\$ 819,809
Storm Water & Parks	1,523,798
Transportation	(192,211)
Non-Major Funds	1,475,681
Total	<u>\$ 3,627,077</u>

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

Year Ended September 30, 2016

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Sales Tax	\$ 3,686,000	\$ 4,000,000	\$ 4,032,516	\$ 32,516
Real and Personal Property Tax	848,000	848,000	861,638	13,638
Grants & Donations	227,500	255,500	258,194	2,694
Motor Fuel and Vehicle Tax	632,000	632,000	630,750	(1,250)
Utility, Gross Receipts, and Other Taxes	673,500	673,500	647,907	(25,593)
Municipal Court Fines and Fees	379,700	335,700	365,135	29,435
Charges for Services	180,700	287,700	334,453	46,753
Interest Income	1,000	1,000	10,517	9,517
Administrative Pilot Payment	1,420,700	1,378,500	1,393,827	15,327
Other	3,100	3,100	10,627	7,527
Total Revenue	8,052,200	8,415,000	8,545,564	130,564
<u>EXPENDITURES</u>				
General Government				
Administration	1,593,900	1,523,400	1,424,223	99,177
Public Safety				
Police	2,442,400	2,430,400	2,348,523	81,877
Municipal Court	93,500	98,900	97,898	1,002
Fire	1,064,200	1,036,200	977,079	59,121
Streets and Public Works				
Street	748,000	748,000	705,861	42,139
Public Works	380,300	415,300	391,541	23,759
Maintenance	550,100	623,100	599,657	23,443
Culture and Recreation				
Park	671,100	731,100	678,259	52,841
Library	411,100	402,000	356,157	45,843
Capital Outlay	948,000	1,345,000	1,167,191	177,809
Debt Service - Principal	279,000	347,000	330,276	16,724
Total Expenses	9,181,600	9,700,400	9,076,665	623,735
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,129,400)	(1,285,400)	(531,101)	754,299
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers In	579,000	609,000	587,097	(21,903)
Transfers Out	(623,600)	(623,600)	(701,729)	(78,129)
Gain/Loss on Asset	33,500	398,500	408,640	10,140
Insurance Proceeds	10,000	165,000	175,648	10,648
Lease Proceeds - Net of Issuance Costs	400,000	425,000	425,000	0
Total Other Financing Sources(Uses)	398,900	973,900	894,656	(79,244)
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ (730,500)	\$ (311,500)	\$ 363,555	\$ 675,055
FUND BALANCE, OCTOBER 1, 2015			3,447,333	
FUND BALANCE, SEPTEMBER 30, 2016			\$ 3,810,888	

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, 2016

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
REVENUES				
Interest Income	\$ 50,000	\$ 65,000	\$ 65,450	\$ 450
Total Revenue	50,000	65,000	65,450	450
EXPENDITURES				
Debt Service Interest and Fees	311,500	312,500	299,175	13,325
Debt Service Principal	989,500	1,068,500	1,072,000	(3,500)
Total Expenditures	1,301,000	1,381,000	1,371,175	9,825
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,251,000)	(1,316,000)	(1,305,725)	10,275
OTHER FINANCING SOURCES(USES)				
Transfer In	1,251,000	1,316,000	1,302,947	(13,053)
Transfer Out	0	0	0	0
Total Other Financing Sources (Uses)	1,251,000	1,316,000	1,302,947	(13,053)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	(2,778)	\$ (2,778)
FUND BALANCE, OCTOBER 1, 2015			31,438	
FUND BALANCE, SEPTEMBER 30, 2016			\$ 28,660	

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, 2016

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Transient Tax Income	\$ 175,000	\$ 250,000	\$ 277,175	\$ 27,175
Interest Income	100	500	375	(125)
Total Revenue	175,100	250,500	277,550	27,050
<u>EXPENDITURES</u>				
General Government	175,100	250,500	277,550	(27,050)
Total Expenditures	175,100	250,500	277,550	(27,050)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	0	0	0	0
OTHER FINANCING SOURCES(USES)				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources(Uses)	0	0	0	0
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>	0	<u>\$ 0</u>
FUND BALANCE, OCTOBER 1, 2015			0	
FUND BALANCE, SEPTEMBER 30, 2016			<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, 2016

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
REVENUES				
Sales Tax	\$ 921,500	\$ 1,000,000	\$ 980,067	\$ (19,933)
Interest Income	500	2,000	1,930	(70)
Other Revenue	0	0	0	0
Total Revenue	922,000	1,002,000	981,997	(20,003)
EXPENDITURES				
Capital Expenditures	582,000	1,332,000	243,698	1,088,302
Total Expenditures	582,000	1,332,000	243,698	1,088,302
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	340,000	(330,000)	738,299	(1,108,305)
OTHER FINANCING SOURCES(USES)				
Special and Extraordinary Items	0	474,000	473,528	(472)
Transfers In	0	0	0	0
Transfers Out	(340,000)	(331,000)	(329,647)	1,353
Total Other Financing Sources(Uses)	(340,000)	143,000	143,881	881
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ 0	\$ (187,000)	882,180	\$ (1,107,424)
FUND BALANCE, OCTOBER 1, 2015			641,618	
FUND BALANCE, SEPTEMBER 30, 2016			\$ 1,523,798	

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, 2016

	Appropriated Budget Amounts			Positive (Negative)
	Original	Final	Actual	Variance
<u>REVENUES</u>				
Sales Tax	\$ 921,500	\$ 1,000,000	\$ 980,067	\$ (19,933)
Grants and Donations	0	0	0	0
Interest Income	500	500	1,158	658
Total Revenue	922,000	1,000,500	981,225	(19,275)
<u>EXPENDITURES</u>				
Capital Expenditures	761,800	1,400,000	1,517,277	(117,277)
Total Expenditures	761,800	1,400,000	1,517,277	(117,277)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	160,200	(399,500)	(536,052)	98,002
OTHER FINANCING SOURCES(USES)				
Transfers In	0	0	0	0
Transfers Out	(178,900)	(224,400)	(186,791)	37,609
Total Other Financing Sources(Uses)	(178,900)	(224,400)	(186,791)	37,609
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	\$ (18,700)	\$ (623,900)	(722,843)	\$ 135,611
FUND BALANCE, OCTOBER 1, 2015			530,632	
FUND BALANCE, SEPTEMBER 30, 2016			\$ (192,211)	

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, 2016

	<u>Appropriated Budget Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Sales Tax	\$ 1,843,000	\$ 2,000,000	\$ 1,961,022	\$ (38,978)
Interest Income	0	2,100	2,531	431
Total Revenue	1,843,000	2,002,100	1,963,553	(38,547)
<u>EXPENDITURES</u>				
Capital Expenditures	32,000	32,000	27,083	4,917
Total Expenditures	32,000	32,000	27,083	4,917
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,811,000	1,970,100	1,936,470	(33,630)
OTHER FINANCING SOURCES(USES)				
Transfers In	0	0	0	0
Transfers Out	(1,843,000)	(1,903,300)	(1,958,862)	(55,562)
Total Other Financing Sources(Uses)	(1,843,000)	(1,903,300)	(1,958,862)	(55,562)
EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ (32,000)</u>	<u>\$ 66,800</u>	(22,392)	<u>\$ (89,192)</u>
FUND BALANCE, OCTOBER 1, 2015			<u>842,201</u>	
FUND BALANCE, SEPTEMBER 30, 2016			<u>\$ 819,809</u>	

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

**CITY OF FARMINTON, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES' RETIREMENT PLAN
FISCAL YEAR 2016**

SCHEDULE OF CITY CONTRIBUTIONS

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation	Contribution Deficiency	Covered Employee Payroll	Contribution as Percentage
2007	\$ 408,947	\$ 408,947	\$ 0	\$ 4,092,289	9.99%
2008	404,593	404,593	0	4,240,657	9.54%
2009	393,189	420,851	(27,662)	4,652,261	9.05%
2010	410,242	453,554	(43,312)	4,767,713	9.51%
2011	633,794	504,541	129,253	4,801,167	10.51%
2012	622,389	539,836	82,553	4,691,277	11.51%
2013	643,084	601,040	42,044	4,823,934	12.46%
2014	617,850	617,850	0	5,000,672	12.36%
2015	581,234	581,234	0	4,908,089	11.84%
2016	502,513	502,514	(1)	5,172,485	9.72%

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

	2016	2015
Total Pension Liability		
Service Cost	\$ 494,790	\$ 500,396
Interest on Total Pension Liability	1,469,673	1,411,366
Changes of Benefit Terms	0	0
Difference Between Expected & Actual Experience	(297,274)	(368,584)
Changes of Assumptions	606,327	0
Benefit Payments, Including Refunds	784,185	689,879
Net Change in Total Pension Liability	1,489,331	853,299
Total Pension Liability - Beginning	0	19,560,213
Total Pension Liability - Ending (a)	\$ 1,489,331	\$ 20,413,512
Plan Fiduciary Net Position		
Contributions - Employer	\$ 503,863	\$ 589,380
Contributions - Employee	0	0
Net Investment Income	(73,051)	468,062
Benefit Payments, Including Refunds	784,185	689,879
Pension Plan Administrative Expense	17,418	18,828
Other (Net Transfer)	(373,803)	247,462
Net Change in Plan Fiduciary Net Position	(744,594)	596,197
Plan Fiduciary Net Position - Beginning	0	22,870,520
Plan Fiduciary Net Position - Ending (b)	\$ (744,594)	\$ 23,466,717
Net Pension Liability/(Asset) - Ending (a-b)	2,233,925	(3,053,205)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	-50.00%	114.96%
Covered-employee Payroll	4,873,669	4,792,368
Net Pension Liability/(Asset) as a Percentage of Covered Employee Payroll	45.84%	(63.71)%

SCHEDULE OF INVESTMENT RETURNS*

	Year Ended June 30		
Annual Money-Weighted Rate of Return Net of Investment Expenses	2016	2015	2014
	(0.22)%	2.07%	19.03%

SCHEDULE OF NET PENSION LIABILITY *

Fiscal Year Ending September 30	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2015	\$ 20,413,512	\$ 23,466,717	\$ (3,053,205)	114.96%	\$ 4,792,368	(63.71)%
2016	21,902,843	22,722,123	(819,280)	103.74%	4,873,669	(16.81)%

*Information for additional prior years is not available. The City will continue to present information for years available until a ten year trend is compiled.

Notes to Schedule:

*Information for prior years is not available, amounts presented for the year end were determined as of June 30, the measurement date.

CITY OF FARMINTON, MISSOURI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES' RETIREMENT PLAN
FISCAL YEAR 2016

Valuation Date: February 29, 2016

The roll-forward of total pension liability from January 29, 2016, to June 30, 2016, reflects expected service cost and interest reduced by actual benefit payments.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method: Entry Age Normal and Modified Terminal Funding

Amortization Method: Level Percentage of Payroll, Closed

Remaining Amortization Period: Multiple bases from 13 to 22 years

Asset Valuation Method: 5-Year smoothed market; 20% corridor

Inflation: 3.25% wage inflation; 2.5% price inflation

Salary Increases: 3.25% to 7.15% including wage inflation

Investment Rate of Return: 7.25%, net of investment expenses

Retirement Age: Experience-based table of rates that are specific to the type of eligibility condition.

Mortality: The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees mortality table for males and females.

Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Other Information: New assumptions adopted based on the 5-year experience study for the period March 1, 2010, through February 28, 2015.

CITY OF FARMINGTON, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2016

CURRENT FINDINGS AND RESPONSES

FINDINGS - FINANCIAL STATEMENT AUDIT

2016-01 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 currently has implemented a modified approach to a roll-forward schedule, until such time as a full system generated roll-forward can be developed via the court software. Through the current approach, the City utilizes a spreadsheet comparison of prior month case balance to current month balance taking into consideration payments collected, fines dismissed, additional fines added, and charges amended. The City then reviews any discrepancies not accounted for on the system reports. The City will continue to work with the software provider to establish a system generated roll-forward to address potential control shortfalls.

CITY OF FARMINGTON, MISSOURI
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

For the Year Ended September 30, 2016

PRIOR YEAR FINDINGS AND RESPONSES

FINDINGS - FINANCIAL STATEMENT AUDIT

2015-01 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. See current finding.