



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE April 2, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Farmington, Iowa.

The City's receipts totaled \$673,810 for the year ended June 30, 2009. The receipts included \$83,288 in property tax, \$352,708 from charges for service, \$183,915 from operating grants, contributions and restricted interest, \$41,379 from local option sales tax, \$3,232 from unrestricted interest on investments and \$9,288 from other general receipts.

Disbursements for the year totaled \$632,930, and included \$143,484 for public works, \$120,316 for culture and recreation and \$86,404 for public safety. Also, disbursements for business type activities totaled \$207,662.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

###

CITY OF FARMINGTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2009

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	33
Schedule of Indebtedness	2	34-35
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 <u>Government Auditing Standards</u>		37-38
Schedule of Findings		39-45
Staff		46

City of Farmington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Armstrong	Mayor	Jan 2012
Janet Browning	Council Member	Jan 2010
Tim Hattan	Council Member	Jan 2010
David Ludwig	Council Member	Jan 2010
Gary Cahill	Council Member	Jan 2012
Elmer Huff	Council Member	Jan 2012
Nichole Jarvis	City Clerk	Indefinite
Mary Jo Smith	City Treasurer	Indefinite
Steven Westercamp	Attorney	Indefinite

City of Farmington



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Farmington's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farmington as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2010 on our consideration of the City of Farmington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Farmington provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2009 FINANCIAL HIGHLIGHTS

- The City's total cash basis net assets increased 19.7%, or approximately \$41,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$36,000 and the assets of the business type activities increased approximately \$5,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the City waterworks and sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Road Use Tax, Farmington Emergency Medical Service and Local Option Sales Tax. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

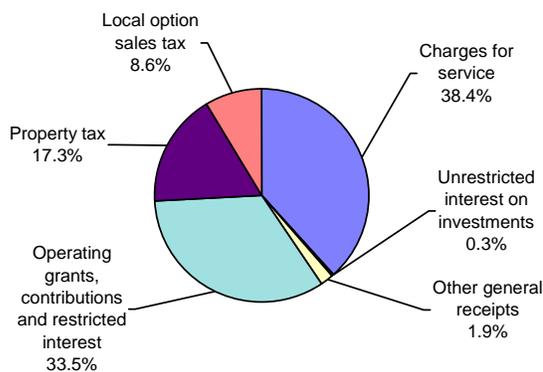
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

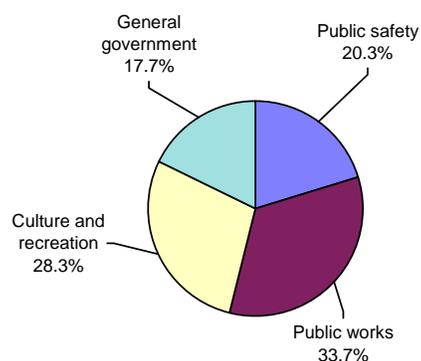
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$141,840 to \$178,028. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 184,226
Operating grants, contributions and restricted interest	161,297
General receipts:	
Property tax	83,288
Local option sales tax	41,379
Unrestricted interest on investments	1,328
Other general receipts	9,288
Total receipts	<u>480,806</u>
Disbursements:	
Public safety	86,404
Public works	143,484
Culture and recreation	120,316
General government	75,064
Total disbursements	<u>425,268</u>
Change in cash basis net assets before transfers	55,538
Transfers, net	<u>(19,350)</u>
Change in cash basis net assets	36,188
Cash basis net assets beginning of year	<u>141,840</u>
Cash basis net assets end of year	<u>\$ 178,028</u>

Receipts by Source



Disbursements by Function



The increase in cash basis net assets is due primarily to increased fees from Indian Park cabin rental and increased local option sales tax receipts.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 115,334
Sewer	53,148
Operating grants, contributions and restricted interest	22,618
General receipts:	
Unrestricted interest on investments	1,904
Total receipts	<u>193,004</u>
Disbursements:	
Water	143,265
Sewer	64,397
Total disbursements	<u>207,662</u>
Change in cash basis net assets before transfers	(14,658)
Transfers, net	19,350
Change in cash basis net assets	<u>4,692</u>
Cash basis net assets beginning of year	<u>65,221</u>
Cash basis net assets end of year	<u>\$ 69,913</u>

Total business type activities cash balance increased from a year ago, from \$65,221 to \$69,913. The increase is due to increases in water sales and related sewer charges.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Farmington completed the year, its governmental funds reported a combined fund balance of \$178,028, an increase of \$36,188 over last year's total of \$141,840. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$16,082 over the prior year to \$52,638. The increase was due to primarily to increased fees from Indian Park cabin rental.
- The Special Revenue, Road Use Tax Fund cash balance was \$4,713 at the end of the fiscal year, a decrease of \$34,913 from the previous year. The decrease was the result of increased maintenance expenses for streets and sidewalks.
- The Special Revenue, Farmington Emergency Medical Service Fund cash balance increased \$27,489 over the prior year to \$74,672 at the end of the fiscal year. This increase was due primarily to additional fees for increased ambulance runs and donations.
- The Special Revenue, Local Option Sales Tax Fund cash balance was \$27,665 at the end of the fiscal year, an increase of \$22,029. The change was the result of water line improvements not progressing as quickly as anticipated.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$6,894 to \$19,386 during the fiscal year. The increase was due to a decrease in disbursements because flooding shifted the emphasis from water repair to street repair.
- The Sewer Fund cash balance decreased \$2,202 to \$50,527 during the fiscal year, which is not considered a significant change.

BUDGETARY HIGHLIGHTS

The City did not amend its budget during the fiscal year.

The City's receipts were \$125,371 more than budgeted. This was primarily due to an increase in FEMA receipts.

Actual disbursements for the business type activities were \$35,338 less than the budget. This was primarily due to the City spending time and efforts on street repair due to flooding rather than on sewer and water repair.

The City exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions for the year ended June 30, 2009 due to unexpected flooding which caused the City to incur unexpected expenses.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$604,333 in notes and other long-term debt outstanding, compared to \$674,746 last year. This represents a decrease of 10% from last year.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
Revenue notes	\$ 304,000	319,000
Loan agreements	300,333	355,746
Total	\$ 604,333	674,746

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation loans of \$300,333 at June 30, 2009 is less than its constitutional debt limit of \$644,489.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Farmington's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$543,872, an increase of .7% over the final fiscal year 2009 budget. The City has added no major new programs or initiatives to the fiscal year 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease \$5,359 by the close of fiscal year 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nichole Jarvis, City Clerk, 203 Elm Street, Farmington, Iowa 52626.

City of Farmington

Basic Financial Statements

City of Farmington

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 86,404	34,248	63,595
Public works	143,484	48,131	32,431
Culture and recreation	120,316	100,854	65,271
General government	75,064	993	-
Total governmental activities	425,268	184,226	161,297
Business type activities:			
Water	143,265	115,334	13,571
Sewer	64,397	53,148	9,047
Total business type activities	207,662	168,482	22,618
Total	\$ 632,930	352,708	183,915
General Receipts:			
Property and other city tax levied for general purposes			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Water line improvements and other infrastructure			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
11,439	-	11,439
(62,922)	-	(62,922)
45,809	-	45,809
(74,071)	-	(74,071)
(79,745)	-	(79,745)
-	(14,360)	(14,360)
-	(2,202)	(2,202)
-	(16,562)	(16,562)
(79,745)	(16,562)	(96,307)
\$ 83,288	-	83,288
41,379	-	41,379
1,328	1,904	3,232
9,288	-	9,288
(19,350)	19,350	-
115,933	21,254	137,187
36,188	4,692	40,880
141,840	65,221	207,061
\$ 178,028	69,913	247,941
\$ 4,713	-	4,713
27,665	-	27,665
93,012	-	93,012
52,638	69,913	122,551
\$ 178,028	69,913	247,941

City of Farmington

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2009

	Special Revenue		
	General	Road Use Tax	Farmington Emergency Medical Service
Receipts:			
Property and other city tax	\$ 69,583	-	-
Local option sales tax	-	-	-
Licenses and permits	993	-	-
Use of money and property	18,438	-	181
Intergovernmental	52,145	62,878	-
Charges for service	148,985	-	34,248
Miscellaneous	9,288	-	20,776
Total receipts	299,432	62,878	55,205
Disbursements:			
Operating:			
Public safety	52,747	-	27,716
Public works	45,693	97,791	-
Culture and recreation	120,316	-	-
General government	64,594	-	-
Total disbursements	283,350	97,791	27,716
Excess (deficiency) of receipts over (under) disbursements	16,082	(34,913)	27,489
Other financing uses:			
Operating transfers out	-	-	-
Net change in cash balances	16,082	(34,913)	27,489
Cash balances beginning of year	36,556	39,626	47,183
Cash balances end of year	\$ 52,638	4,713	74,672
Cash Basis Fund Balances			
Unreserved:			
General fund	52,638	-	-
Special revenue funds	-	4,713	74,672
Total cash basis fund balances	\$ 52,638	4,713	74,672

See notes to financial statements.

Local Option Sales Tax	Nonmajor	Total
-	13,705	83,288
41,379	-	41,379
-	-	993
-	27	18,646
-	859	115,882
-	-	183,233
-	7,321	37,385
41,379	21,912	480,806
-	5,941	86,404
-	-	143,484
-	-	120,316
-	10,470	75,064
-	16,411	425,268
41,379	5,501	55,538
(19,350)	-	(19,350)
22,029	5,501	36,188
5,636	12,839	141,840
27,665	18,340	178,028
-	-	52,638
27,665	18,340	125,390
27,665	18,340	178,028

City of Farmington

City of Farmington

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 115,334	53,148	168,482
Miscellaneous	13,571	9,047	22,618
Total operating receipts	128,905	62,195	191,100
Operating disbursements:			
Business type activities	97,990	21,495	119,485
Excess of operating receipts over operating disbursements	30,915	40,700	71,615
Non-operating receipts (disbursements):			
Interest on investments	1,904	-	1,904
Debt service	(45,275)	(42,902)	(88,177)
Net non-operating receipts (disbursements)	(43,371)	(42,902)	(86,273)
Deficiency of receipts under disbursements	(12,456)	(2,202)	(14,658)
Operating transfers in	19,350	-	19,350
Net change in cash balances	6,894	(2,202)	4,692
Cash balances beginning of year	12,492	52,729	65,221
Cash balances end of year	\$ 19,386	50,527	69,913
Cash Basis Fund Balances			
Unreserved	\$ 19,386	50,527	69,913

See notes to financial statements.

City of Farmington

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Farmington is a political subdivision of the State of Iowa located in Van Buren County. It was first incorporated in 1833 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Farmington has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Farmington (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Farmington Emergency Responders Association is legally separate from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the nonmajor governmental funds. Although the Association is legally separate from the City, its purpose is to benefit the City by soliciting contributions and managing those funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Van Buren County Assessor's Conference Board, Van Buren County Emergency Management Commission and Van Buren County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Farmington Emergency Medical Service Fund is used to account for the operation and maintenance of the Emergency Medical Services activity.

The Local Option Sales Tax Fund is used to account for local option sales tax and its uses.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Long-Term Debt

Water Revenue Capital Loan Notes

Annual debt service requirements to maturity for the water revenue capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2010	3.00%	\$ 15,000	9,120	24,120
2011	3.00	16,000	8,670	24,670
2012	3.00	16,000	8,190	24,190
2013	3.00	16,000	7,710	23,710
2014	3.00	17,000	7,230	24,230
2015-2019	3.00	93,000	28,230	121,230
2020-2024	3.00	108,000	13,380	121,380
2025	3.00	23,000	690	23,690
Total		\$ 304,000	83,220	387,220

The City has pledged future customer receipts, net of specified operating disbursements, to repay \$360,000 of water revenue capital loan notes issued in April 2005. Proceeds from the notes provided financing for constructing improvements and extensions. The notes are payable solely from the future earnings of the water utility and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$387,220. For the current year, principal and interest paid and total customer net receipts were \$24,570 and \$30,915, respectively.

Annual principal and interest payments on the revenue notes are expected to require 110 percent of net receipts.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the water utility and the note holders hold a lien on the future earnings of the funds.
- (b) The City will set water rates for the succeeding year to be sufficient to produce net revenues not less than 110% of the principal and interest requirements for the next succeeding year.
- (c) Sufficient monthly transfers shall be made by the City to a revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (d) Additional monthly transfers shall be made to a reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the notes when insufficient money shall be available in the sinking account.

The City did not comply with the rate provision and the monthly sinking account transfer provision.

Rathbun Regional Water Association, Inc. Loan Agreement

On May 1, 1999, the City entered into a loan agreement with Rathbun Regional Water Association, Inc. for \$140,000 to install a new water system. The loan is due in monthly installments of \$1,485, including interest at 5% per annum. The final loan payment was made in May 2009.

Bank Loan Agreements

On June 11, 2004, the City entered into a loan agreement with the local bank for \$365,000. The funds were used to refinance sewer revenue bonds dated December 4, 1975. The refinancing resulted in a reduction of interest from 5% to 4% per annum. The loan is to be repaid in monthly installments of \$3,426, including interest, beginning July 20, 2004 and ending June 20, 2015. The balance of the loan at June 30, 2009 was \$218,711.

On July 11, 2006, the City entered into a loan agreement with the local bank for \$55,000 to purchase a home for the Indian Lake Park manager. The loan bears interest at 7.25% per annum and is to be repaid in monthly installments of \$506, including interest, beginning August 16, 2006, with a final payment of the entire unpaid principal and interest balance due January 16, 2014. The balance of the loan at June 30, 2009 was \$48,358.

On October 9, 2007, the City entered into a loan agreement with the local bank for \$42,000 to purchase a backhoe. The loan bears interest at 5% per annum and is to be repaid in monthly installments of \$596, including interest, beginning November 15, 2007, with a final payment of the entire unpaid principal and interest balance due October 15, 2014. The balance of the loan at June 30, 2009 was \$33,264.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$5,840, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, was \$650. This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Water	Special Revenue: Local Option Sales Tax	<u>\$ 19,350</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Solid Waste Agreement

On September 13, 2004, the City entered into a solid waste agreement for curbside garbage and recycling services. The contract began on October 1, 2004 and ended September 30, 2009. The contract called for payments of \$3,899 per month. The contract was renewed on January 1, 2010 with a term of five years. The contract calls for payments of \$3,683 per month for residential service.

(9) Subsequent Event

On October 13, 2009, the City entered into a loan agreement with State Central Bank for up to \$50,000. As of February 11, 2010, the City had withdrawn \$27,650 to assist the Farmington Emergency Responders Association with building improvements.

City of Farmington

Required Supplementary Information

City of Farmington
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 83,288	-	-
Local option sales tax	41,379	-	-
Licenses and permits	993	-	-
Use of money and property	18,646	1,904	27
Intergovernmental	115,882	-	859
Charges for service	183,233	191,100	-
Miscellaneous	37,385	-	7,321
Total receipts	480,806	193,004	8,207
Disbursements:			
Public safety	86,404	-	5,941
Public works	143,484	-	-
Culture and recreation	120,316	-	-
General government	75,064	-	-
Business type activities	-	207,662	-
Total disbursements	425,268	207,662	5,941
Excess (deficiency) of receipts over (under) disbursements	55,538	(14,658)	2,266
Other financing sources, net	(19,350)	19,350	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	36,188	4,692	2,266
Balances beginning of year	141,840	65,221	8,936
Balances end of year	\$ 178,028	69,913	11,202

See accompanying independent auditor's report.

Total	Budgeted Amounts Original/Final	Final to Total Variance
83,288	79,129	4,159
41,379	34,083	7,296
993	1,670	(677)
20,523	20,000	523
115,023	65,000	50,023
374,333	337,700	36,633
30,064	2,650	27,414
<u>665,603</u>	<u>540,232</u>	<u>125,371</u>
80,463	48,350	(32,113)
143,484	105,050	(38,434)
120,316	98,875	(21,441)
75,064	65,719	(9,345)
207,662	243,000	35,338
<u>626,989</u>	<u>560,994</u>	<u>(65,995)</u>
38,614	(20,762)	59,376
-	-	-
38,614	(20,762)	59,376
198,125	149,154	48,971
<u>236,739</u>	<u>128,392</u>	<u>108,347</u>

City of Farmington

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not amend the budget during the year ended June 30, 2009.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions.

Other Supplementary Information

City of Farmington

City of Farmington

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Special Revenue			Total
	Employee Benefits	Emergency	Farmington Emergency Responders Association	
Receipts:				
Property and other city tax	\$ 11,160	2,545	-	13,705
Use of money and property	-	-	27	27
Intergovernmental	-	-	859	859
Miscellaneous	-	-	7,321	7,321
Total receipts	<u>11,160</u>	<u>2,545</u>	<u>8,207</u>	<u>21,912</u>
Disbursements:				
Operating:				
Public safety	-	-	5,941	5,941
General government	10,470	-	-	10,470
Total disbursements	<u>10,470</u>	<u>-</u>	<u>5,941</u>	<u>16,411</u>
Excess of receipts over disbursements	690	2,545	2,266	5,501
Cash balances beginning of year	3,805	98	8,936	12,839
Cash balances end of year	<u>\$ 4,495</u>	<u>2,643</u>	<u>11,202</u>	<u>18,340</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u>\$ 4,495</u>	<u>2,643</u>	<u>11,202</u>	<u>18,340</u>

See accompanying independent auditor's report.

City of Farmington
Schedule of Indebtedness
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Water revenue capital loan notes	Apr 28, 2005	3.00%	\$ 360,000
Loan agreements:			
Water project	May 1, 1999	5.00%	\$ 140,000
Sewer	Jun 11, 2004	4.00	365,000
Indian Lake Park House	Jul 11, 2006	7.25	55,000
Backhoe	Oct 9, 2007	5.00	42,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
319,000	15,000	304,000	9,570
15,933	15,933	-	401
250,387	31,676	218,711	9,440
50,824	2,466	48,358	3,605
38,602	5,338	33,264	1,809
<u>\$ 355,746</u>	<u>55,413</u>	<u>300,333</u>	<u>15,255</u>

City of Farmington



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Honorable Mayor and
Members of the City Council:

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, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 16, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Farmington's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Farmington's financial statements that is more than inconsequential will not be prevented or detected by the City of Farmington's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Farmington's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B), (C), (F), (G) and (I) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Farmington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Farmington's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Farmington's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Farmington and other parties to whom the City of Farmington may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Farmington during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 16, 2010

City of Farmington

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas:

Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.

Receipts – collecting, depositing, journalizing and posting.

Utility receipts – billing, collecting, depositing, posting and reconciling.

Disbursements – purchasing, check signing, recording and reconciling.

Payroll – preparing and distributing.

Transfers – recording and reconciling.

Financial reporting – preparing, reconciling and distributing.

Accounting system – performing all general accounting functions and having custody of City assets.

Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

In addition, an initial listing of mail receipts is not prepared by the mail opener.

For the Farmington Emergency Responders Association and Farmington Emergency Medical Service, one individual has control over each of the following areas:

Receipts – collecting, depositing, posting and reconciling.

Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Farmington Emergency Responders Association and Farmington Emergency Medical Service should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Responses –

City – The City will segregate duties to the extent possible with existing personnel and City Council Members.

Farmington Emergency Responders Association – The Farmington Emergency Responders Association will involve others in the process to segregate duties as much as possible.

Farmington Emergency Medical Service – The EMS will review procedures and segregate to the extent possible.

Conclusions – Responses accepted.

City of Farmington

Schedule of Findings

Year ended June 30, 2009

- (B) Fund Balances – The City records detail receipt and disbursement transactions on its computer system software which is used to prepare monthly and year to date reports. Monthly reports are prepared using a spreadsheet which summarizes each fund's receipts and disbursements.

The beginning fund balances each month were not reconciled with the ending fund balances for the previous month. Additionally, the receipts and disbursements included transfers in and transfers out. Also, the receipts and disbursements were not always reconciled with the monthly receipts and disbursements report. Therefore, the ending fund balances did not reconcile with the annual financial report or the year end report.

Recommendation – The beginning fund balances should be reconciled with the previous month's ending fund balances. Additionally, the receipts and disbursements should not include transfer activity. Also, the receipts and disbursements should be reconciled monthly with the receipts and disbursements report.

Response – Beginning fund balances will be reconciled with the previous month's ending balances. Transfers will not be included in receipts and disbursements. Receipts and disbursements will be reconciled with receipts and disbursements report.

Conclusion – Response accepted.

- (C) Annual Financial Report – The City's Annual Financial Report was not prepared following the guidance included in the Uniform Chart of Accounts for Iowa Cities. As a result, numerous classification differences existed. For financial statement purposes, these disbursements have been corrected by the City.

Recommendation – The City should ensure disbursements are properly recorded when preparing the Annual Financial Report in accordance with the Uniform Chart of Accounts for Iowa Cities.

Response – The City will follow the Uniform Chart of Accounts for Cities starting July 1, 2010.

Conclusion – Response accepted.

- (D) Disbursements – A disbursement for the Farmington Emergency Medical Service (EMS) did not clearly meet the test of public purpose. Certain disbursements were not approved in Council minutes for the City. For EMS, invoices were not properly cancelled to prevent reuse and invoices were missing for certain disbursements.

Recommendation – The City and EMS should ensure all disbursements are adequately supported to document public purpose, invoices are obtained and retained for all disbursements, invoices are cancelled to prevent reuse and all disbursements are approved by the Council.

City of Farmington

Schedule of Findings

Year ended June 30, 2009

Responses –

City – The City will ensure all disbursements have been properly included in Council minutes and meet public purpose.

EMS – Invoices will be cancelled and invoices will be obtained and retained. The Emergency Medical Service Board will develop a policy for documenting public purpose.

Conclusions – Responses accepted.

- (E) Information System – During our review of internal control, the existing control activities in the City's computer based financial system were evaluated to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based financial system were noted:

The City does not have written policies over the computer based financial system for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring backups be performed daily and stored off site.
- Ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- Usage of the internet.
- Logging off unattended computers.
- A disaster recovery plan

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer based financial system.

Response – The City will attempt to formulate policies.

Conclusion – Response accepted.

- (F) Utility Billings – The City did not reconcile utility billings, collections and delinquent accounts.

Recommendation – Procedures should be established by the City to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquent accounts. The City Ordinance should be revised to ensure delinquent utility accounts are monitored and, if necessary, write-off procedures are implemented.

Response – City Clerk will ensure reconciliations are done monthly. The City Council and Mayor will review the policies and ordinances.

Conclusion – Response accepted.

City of Farmington

Schedule of Findings

Year ended June 30, 2009

- (G) Credit Card Usage – The City maintains a store credit card with Wal-Mart. Two City employees have custody of the credit card. Credit card statements are delivered to the City Clerk. Detailed receipts are not turned in to the City Clerk. Also, payments made on the credit card were set up as automatic withdrawals from the City's checking account.

Recommendation – Detailed receipts should be submitted to the City Clerk timely for all purchases. Additionally, the Council should discontinue the automatic payments because the practice supersedes Council review and approval of payments.

Response – Detailed receipts are now required to be submitted. The City has halted automatic withdrawals from the checking account.

Conclusion – Response accepted.

- (H) Employee Pay – On July 1, 2009, the City Clerk received a pay increase. The Mayor represented the pay increase was approved. Approval could not be located in the Council minutes for the pay increase.

Recommendation – All changes in employee pay should be approved by the City Council and documented in the Council minutes.

Response – All changes in pay will be documented in Council minutes.

Conclusion – Response accepted.

- (I) Separately Maintained Records – Farmington Emergency Medical Service maintains separate records pertaining to its operation. The financial activity and balances are not included in the City's accounting records. Additionally, prenumbered receipts were not issued and disbursements were not approved by the Board.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose...." For better accountability, financial and budgetary control, the financial activity and balances should be included in the City's accounting records and reported to the City Council monthly.

Response – The Farmington Emergency Medical Service is filing the necessary papers with the Secretary of State to become a legally separate non-profit entity.

Conclusion – Response acknowledged. The Board responded in the same manner four years ago. Until this has been accomplished, the City and Farmington Emergency Medical Service should comply with Chapter 384.20 of the Code of Iowa.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Farmington

Schedule of Findings

Year ended June 30, 2009

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will monitor disbursements and amend the budget as needed.

Conclusion – Response accepted.

- (2) Questionable Disbursements – As previously noted, the following disbursement was noted which may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Riverfront Flowers	Silk flowers	\$ 50

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Farmington Emergency Medical Service Board should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the Farmington Emergency Medical Service Board should establish written policies and procedures, including the requirement for proper documentation.

Response – The Emergency Medical Service Board will develop a policy for documenting public purpose.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Farmington

Schedule of Findings

Year ended June 30, 2009

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
John Armstrong, Mayor, Owner of John's Food Center	Food and supplies for fund raisers	\$ 8,820

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions with the Mayor's business were greater than \$2,500 during the year ended June 30, 2009.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel on this matter.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

However, the Council minutes were not always published within 15 days of meetings as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – Council minutes should be published in accordance with the Code of Iowa.

Response – Council minutes will be published in accordance with the Code of Iowa.

Conclusion – Response accepted.

- (7) Deposits and Investments – Except as follows, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

Per Chapter 12B.10(3) of the Code of Iowa, the City is to establish an investment policy. The City does not have a written investment policy.

Recommendation – The City should develop an investment policy and ensure it is reviewed annually.

Response – An investment policy will be established by the City.

Conclusion – Response accepted.

City of Farmington

Schedule of Findings

Year ended June 30, 2009

(8) Revenue Notes – The following instances of non-compliance with the requirements of the revenue note resolution were noted:

- Certain monthly transfers to the water revenue sinking account required by the water revenue note resolution were not made.
- The City did not set water rates for the succeeding year to be sufficient to produce net revenues not less than 110% of the principal and interest for the next succeeding year.

Recommendation – Monthly transfers should be made to the water revenue note sinking account as required by the water revenue note resolution. Water rates should be reviewed to ensure net revenues for the water utility are 110 percent of the principal and interest for the succeeding year.

Response – Required monthly transfers will be made to the sinking account. The City will review water rates.

Conclusion – Response accepted.

(9) Bank Loan – On June 11, 2004 and July 11, 2006, the City obtained bank loans of \$365,000 and \$55,000 to refinance sewer revenue bond debt and to purchase a home for the Indian Lake Park Manager. However, the City did not hold public hearings prior to obtaining these loans. Chapter 384.24A(5) of the Code of Iowa states the City shall follow the same authorization procedures required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement. Pursuant to Chapter 384.83 of the Code of Iowa, the City should have published notice of and held a public hearing prior to entering into the loan agreements.

Recommendation – In the future, the City should comply with the requirements of Chapters 384.24A(5) and 384.83 of the Code of Iowa before entering into bank loans.

Response – Public hearings for loans have been held since these issuances and will continue to be held in the future.

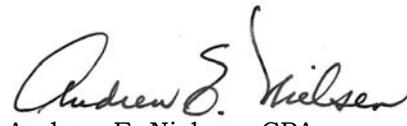
Conclusion – Response accepted.

City of Farmington

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
Shawn R. Elsbury, Senior Auditor
Kristin M. Ockenfels, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State