



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE April 3, 2006

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

The City has implemented new reporting standards for the year ended June 30, 2005, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$907,034 for the year ended June 30, 2005. The receipts included \$73,817 in property tax, \$381,110 from charges for service, \$103,623 from operating grants, contributions and restricted interest, \$165,139 from capital grants, contributions and restricted interest, \$34,637 from local option sales tax, \$146,451 from loan and note proceeds and \$2,257 from other general receipts.

Disbursements for the year totaled \$853,579, and included \$257,433 for capital projects, \$110,922 for public works and \$104,933 for culture and recreation. Also, disbursements for business type activities totaled \$203,550.

A copy of the 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/reports.htm>.

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CITY OF FARMINGTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

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City of Farmington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John R. Armstrong	Mayor	Jan 2006
David Ludwig	Mayor Pro Tem	Jan 2006
William Cline	Council Member	Jan 2006
Tim Hattan	Council Member	Nov 2006
Elmer Huff	Council Member	Jan 2008
Gary Cahill	Council Member	Jan 2008
Mary Jo Smith	City Clerk	Indefinite
Iris Kerr	City Treasurer	Indefinite
Steven Westercamp	Attorney	Indefinite

City of Farmington



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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, 2005, 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, 2004.

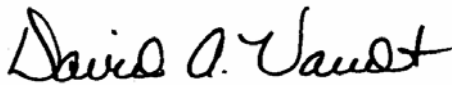
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present 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, 2005, 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.

As described in Note 10, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

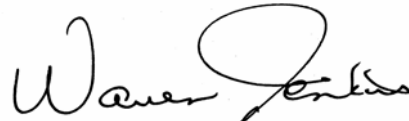
In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2006 on our consideration of the City of Farmington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 internal control over financial reporting or 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 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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 are 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, 2004, 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 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since 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.

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 31%, or approximately \$39,000, due primarily to an overall decrease in disbursements from the Farmington Emergency Medical Service and Road Use Tax Funds.
- The cash basis net assets of the City's business type activities increased 19%, or approximately \$14,000, due to in part to a sewer rate increase in fiscal 2005.

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 City's nonmajor governmental funds and its 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 that 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, culture and recreation, general government and capital projects. Property tax, and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user fees and related 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, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Farmington Emergency Medical Service, and 3) the Capital Projects Fund. 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 operations, considered to be major funds of the City.

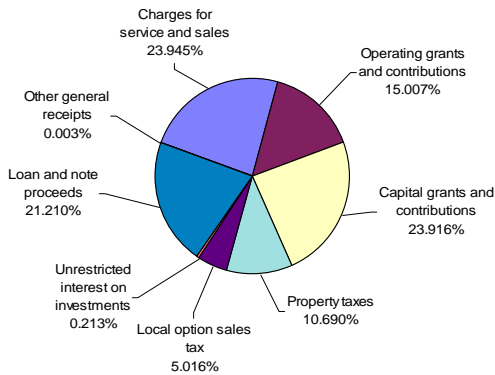
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

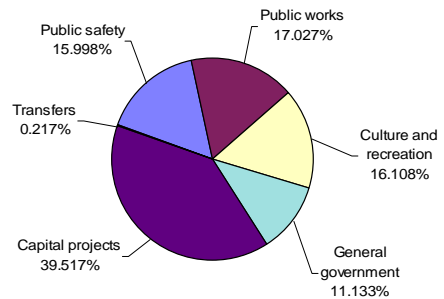
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$124,257 to \$163,311. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 165,338
Operating grants, contributions and restricted interest	103,623
Capital grants, contributions and restricted interest	165,139
General receipts:	
Property tax	73,817
Local option sales tax	34,637
Unrestricted interest on investments	1,472
Loan and note proceeds	146,451
Other general receipts	19
Total receipts	690,496
Disbursements and transfers:	
Public safety	104,217
Public works	110,922
Culture and recreation	104,933
General government	72,524
Capital projects	257,433
Transfers	1,413
Total disbursements and transfers	651,442
Increase in cash basis net assets	39,054
Cash basis net assets beginning of year	124,257
Cash basis net assets end of year	\$ 163,311

Receipts by Source



Disbursements by Function



The cash basis net assets increased by approximately \$39,000, due primarily to an overall decrease in disbursements from the Farmington Emergency Medical Service and Road Use Tax Funds.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 150,297
Sewer	66,241
Transfers	1,413
Total receipts and transfers	<u>217,951</u>
Disbursements:	
Water	148,278
Sewer	55,272
Total disbursements	<u>203,550</u>
Increase in cash basis net assets	14,401
Cash basis net assets beginning of year	<u>73,852</u>
Cash basis net assets end of year	<u>\$ 88,253</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Farmington completed the year, its governmental funds reported a combined fund balance of \$163,311, an increase of approximately \$39,000 over the June 30, 2004 balance of \$124,257. 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 decreased \$10,424 from the prior year, to a year-end balance of \$38,901. The decrease was due in part to a court settlement against the City in fiscal 2005 in the amount of \$21,074 pertaining to a payroll issue.
- The Road Use Tax Fund cash balance increased \$7,786 to \$24,859 during the fiscal year, due in part to a reduction in street projects during fiscal 2005.
- The Local Option Sales Tax Fund cash balance increased \$34,637 to \$49,455. These funds are planned for future water line improvement and other infrastructure projects.
- The Farmington Emergency Medical Service Fund cash balance increased \$13,710 to \$31,497, due primarily to a decrease in disbursements during fiscal 2005.
- The Capital Projects Fund received and disbursed \$120,982 of Community Development Block Grant (CDBG) and state revolving loan funds of \$136,451 for the water improvement project, leaving no fund balance at June 30, 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$2,020 to \$29,131, which was not considered a significant change.
- The Sewer Fund cash balance increased \$12,381 to \$59,122, due in part to a rate increase in fiscal 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2005 and resulted in an increase in business type activity disbursements of approximately \$146,000 for the water project. The City received a CDBG grant from the Iowa Department of Economic Development and state revolving loan funds from the Iowa Department of Natural Resources to pay for the additional costs.

Disbursements exceeded the amounts budgeted in the public safety, culture and recreation, capital projects and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$551,307 in revenue notes and other long-term debt, compared to \$454,530 last year. This represents an increase of 21% over last year.

	Outstanding Debt at Year End	
	June 30,	
	2005	2004
Revenue notes	\$ 140,051	-
Loan agreements	411,256	454,530
Total	\$ 551,307	454,530

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 2006 budget, tax rates and fees charged for various City activities. The City's fiscal year 2006 assessed value decreased less than 1%, or \$28,102, from the fiscal year 2005 level.

The proposed fiscal year 2006 budget includes total receipts of \$531,789 and disbursements of \$509,270.

The proposed FY2006 levy is \$8.10 per \$1,000 of assessed property valuation, which is unchanged from FY2005.

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 the City Clerk, P.O. Box 477, Farmington, Iowa 52626-0477.

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, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 104,217	675	37,188	44,157
Public works	110,922	53,321	62,858	-
Culture and recreation	104,933	73,961	3,577	-
General government	72,524	37,381	-	-
Capital projects	257,433	-	-	120,982
Total governmental activities	650,029	165,338	103,623	165,139
Business type activities:				
Water	148,278	150,297	-	-
Sewer	55,272	65,475	-	-
Total business type activities	203,550	215,772	-	-
Total	\$ 853,579	381,110	103,623	165,139

General Receipts:

- Property tax levied for general purposes
- Local option sales tax
- Unrestricted interest on investments
- Bank loan proceeds
- Capital loan note proceeds
- Miscellaneous

Transfers

Total general receipts

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
(22,197)	-	(22,197)
5,257	-	5,257
(27,395)	-	(27,395)
(35,143)	-	(35,143)
(136,451)	-	(136,451)
(215,929)	-	(215,929)
-	2,019	2,019
-	10,203	10,203
-	12,222	12,222
(215,929)	12,222	(203,707)
73,817	-	73,817
34,637	-	34,637
1,472	766	2,238
10,000	-	10,000
136,451	-	136,451
19	-	19
(1,413)	1,413	-
254,983	2,179	257,162
39,054	14,401	53,455
124,257	73,852	198,109
\$ 163,311	88,253	251,564
\$ 24,859	-	24,859
49,455	-	49,455
50,096	-	50,096
38,901	88,253	127,154
\$ 163,311	88,253	251,564

City of Farmington

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

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Farmington Emergency Medical Service
Receipts:				
Property tax	\$ 69,055	-	-	-
Other city tax	-	-	34,637	-
Licenses and permits	1,412	-	-	-
Use of money and property	17,280	-	-	142
Intergovernmental	46,569	62,858	-	-
Charges for service	122,044	-	-	32,993
Miscellaneous	27,259	-	-	-
Total receipts	283,619	62,858	34,637	33,135
Disbursements:				
Operating:				
Public safety	81,125	-	-	19,425
Public works	54,684	55,072	-	-
Culture and recreation	103,124	-	-	-
General government	63,697	-	-	-
Capital projects	-	-	-	-
Total disbursements	302,630	55,072	-	19,425
Excess (deficiency) of receipts over (under) disbursements	(19,011)	7,786	34,637	13,710
Other financing sources (uses):				
Bank loan proceeds	10,000	-	-	-
State Revolving Fund capital loan note proceeds	-	-	-	-
Operating transfers out	(1,413)	-	-	-
Total other financing sources (uses)	8,587	-	-	-
Net change in cash balances	(10,424)	7,786	34,637	13,710
Cash balances beginning of year	49,325	17,073	14,818	17,787
Cash balances end of year	\$ 38,901	24,859	49,455	31,497
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 38,901	-	-	-
Special revenue funds	-	24,859	49,455	31,497
Total cash basis fund balances	\$ 38,901	24,859	49,455	31,497

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	4,762	73,817
-	-	34,637
-	-	1,412
-	-	17,422
120,982	-	230,409
-	-	155,037
-	4,052	31,311
120,982	8,814	544,045
-	3,667	104,217
-	1,166	110,922
-	1,809	104,933
-	8,827	72,524
257,433	-	257,433
257,433	15,469	650,029
(136,451)	(6,655)	(105,984)
-	-	10,000
136,451	-	136,451
-	-	(1,413)
136,451	-	145,038
-	(6,655)	39,054
-	25,254	124,257
-	18,599	163,311
-	-	38,901
-	18,599	124,410
-	18,599	163,311

City of Farmington

City of Farmington

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

As of and for the year ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 150,297	65,475	215,772
Operating disbursements:			
Business type activities	130,459	14,157	144,616
Excess of operating receipts over operating disbursements	19,838	51,318	71,156
Non-operating receipts (disbursements):			
Interest on investments	1	765	766
Debt service	(17,819)	(41,115)	(58,934)
Total non-operating receipts (disbursements)	(17,818)	(40,350)	(58,168)
Excess of receipts over disbursements	2,020	10,968	12,988
Operating transfer in	-	1,413	1,413
Net change in cash balances	2,020	12,381	14,401
Cash balances beginning of year	27,111	46,741	73,852
Cash balances end of year	\$ 29,131	59,122	88,253
Cash Basis Fund Balances			
Unreserved	\$ 29,131	59,122	88,253

See notes to financial statements.

City of Farmington

Notes to Financial Statements

June 30, 2005

(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, culture and recreation 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.

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 of Farmington (the primary government) 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 the 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 funds are aggregated and reported as nonmajor 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 Local Option Sales Tax Fund is used to account for local option sales tax and its uses.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

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 waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Farmington 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 incurred, 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, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City's bank deposits at June 30, 2005 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) Notes Payable and Loan Agreements

On April 28, 2005, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$360,000 of water revenue capital loan notes with interest at 3.0% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's water system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2005, the City had drawn \$140,051, including a \$3,600 initiation fee, of the \$360,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$219,949 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

The resolution providing for the issuance of the water revenue capital loan notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account for the purpose of making principal and interest payments when due. As of June 30, 2005, this account has not been established.

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 5.00% per annum. The unpaid principal balance at June 30, 2005 totaled \$63,263.

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 was completed in the previous fiscal year and resulted in a reduction of interest from 5% to 4% per annum. The loan bears 4% per annum interest and 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, 2005 was \$337,993.

On January 19, 2005, the City entered into a loan agreement with the local bank for \$10,000 to purchase a tractor/loader. The loan bears interest at 5.25% per annum. The outstanding balance of \$10,000 at June 30, 2005 was paid in full on October 11, 2005.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual 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, 2005 was \$4,300, 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 hours payable to employees at June 30, 2005, primarily relating to the General Fund, is \$1,200. This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Sewer	General	\$ 1,413

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 the past fiscal year.

(8) Construction Contract/Commitments

During the year ended June 30, 2005, the City entered into a construction contract for water main replacement at a cost of \$543,128 and approved two change orders increasing the contract by \$33,034. The City paid the contractor a total of \$197,114 during the year. The unpaid portion of the contract at June 30, 2005 was \$379,048. Payments will be made as work on the project progresses. The City is using Iowa Department of Natural Resources Clean Water State Revolving Loan funds and Community Development Block Grant funds to fund this project.

(9) 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 will end September 30, 2009. The contract requires monthly payments of \$3,799 per month from October 1, 2004 through September 30, 2006 and \$3,899 per month from October 1, 2006 through September 30, 2009. The City paid \$45,594 during the year ended June 30, 2005.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

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 Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 73,817	-	-
Other city tax	34,637	-	-
Licenses and permits	1,412	-	-
Use of money and property	17,422	766	-
Intergovernmental	230,409	-	-
Charges for service	155,037	215,772	-
Miscellaneous	31,311	-	4,052
Total receipts	544,045	216,538	4,052
Disbursements:			
Public safety	104,217	-	3,459
Public works	110,922	-	-
Culture and recreation	104,933	-	-
General government	72,524	-	-
Capital projects	257,433	-	-
Business type activities	-	203,550	-
Total disbursements	650,029	203,550	3,459
Excess (deficiency) of receipts over (under) disbursements	(105,984)	12,988	593
Other financing sources, net	145,038	1,413	-
Excess of receipts and other financing sources over disbursements and other financing uses	39,054	14,401	593
Balances beginning of year	124,257	73,852	5,251
Balances end of year	\$ 163,311	88,253	5,844

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
73,817	68,900	68,900	4,917
34,637	22,292	33,195	1,442
1,412	225	225	1,187
18,188	15,000	15,000	3,188
230,409	74,456	177,360	53,049
370,809	338,000	338,000	32,809
27,259	2,800	24,884	2,375
<u>756,531</u>	<u>521,673</u>	<u>657,564</u>	<u>98,967</u>
100,758	45,200	93,900	(6,858)
110,922	120,080	130,080	19,158
104,933	90,450	90,450	(14,483)
72,524	66,900	88,984	16,460
257,433	-	65,000	(192,433)
203,550	180,069	180,069	(23,481)
<u>850,120</u>	<u>502,699</u>	<u>648,483</u>	<u>(201,637)</u>
(93,589)	18,974	9,081	(102,670)
146,451	-	10,000	136,451
52,862	18,974	19,081	33,781
192,858	227,018	227,018	(34,160)
<u>245,720</u>	<u>245,992</u>	<u>246,099</u>	<u>(379)</u>

City of Farmington

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$145,784. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, capital projects and business type activities 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, 2005

	Special Revenue			Total
	Employee Benefits	Emergency	Farmington Emergency Responders Association	
Receipts:				
Property tax	\$ 3,064	1,698	-	4,762
Miscellaneous	-	-	4,052	4,052
Total receipts	<u>3,064</u>	<u>1,698</u>	<u>4,052</u>	<u>8,814</u>
Disbursements:				
Public safety	208	-	3,459	3,667
Public works	1,166	-	-	1,166
Culture and recreation	1,809	-	-	1,809
General government	8,827	-	-	8,827
Total disbursements	<u>12,010</u>	<u>-</u>	<u>3,459</u>	<u>15,469</u>
Excess (deficiency) of receipts over (under) disbursements	(8,946)	1,698	593	(6,655)
Cash balances beginning of year	14,582	5,421	5,251	25,254
Cash balances end of year	<u>\$ 5,636</u>	<u>7,119</u>	<u>5,844</u>	<u>18,599</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u>\$ 5,636</u>	<u>7,119</u>	<u>5,844</u>	<u>18,599</u>

See accompanying independent auditor's report.

City of Farmington
Schedule of Indebtedness
June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Water revenue capital loan notes	Apr 28, 2005	3.00%	\$ 360,000
Loan agreements:			
Rathbun Regional Water Association, Inc.	May 1, 1999	5.00%	\$ 140,000
Truck	Jan 13, 2004	4.00	12,000
Sewer	Jun 11, 2004	4.00	365,000
Tractor/Loader	Jan 19, 2005	5.25	10,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	140,051	-	140,051	-
77,530	-	14,267	63,263	3,552
12,000	-	12,000	-	443
365,000	-	27,007	337,993	14,108
-	10,000	-	10,000	-
\$ 454,530	10,000	53,274	411,256	18,103

City of Farmington



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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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 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 10, 2006. 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, 2004. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Farmington's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

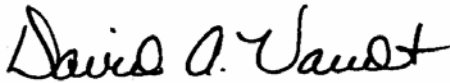
Compliance and Other Matters

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.

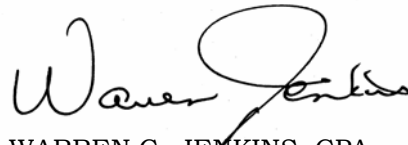
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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 10, 2006

City of Farmington

Schedule of Findings

Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
 - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (4) Long term debt – recording and reconciling.
 - (5) Receipts – collecting, depositing, journalizing and posting.
 - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (7) Disbursements – purchasing, check signing, recording and reconciling.
 - (8) Payroll – preparing and distributing.
 - (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
 - (10) Financial reporting – preparing, reconciling and distributing.

City of Farmington

Schedule of Findings

Year ended June 30, 2005

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

- (1) Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions, handling and recording cash.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – authorizing, preparing, posting and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – We will review our procedures and use as many internal controls as possible.

Conclusion – Response accepted.

- (B) Utility Billings, Collections and Delinquencies – The City did not prepare utility billings, collections and delinquent accounts reconciliations, including prior delinquent account balances.

Recommendation – Procedures should be established to include prior delinquent account balances in the billings, collections and delinquent accounts reconciliation. Also, a utility aging report of delinquent accounts should be prepared and provided to the City Council for its review and monitoring of delinquencies.

Response – A utility aging report is available on the billing software and will be used monthly for the Council’s review and action.

Conclusion – Response acknowledged. The City should prepare a utility accounts reconciliation, including prior delinquent account balances.

- (C) Disbursements – Although documentation was available to support City disbursements, the supporting documentation was not always cancelled.

Recommendation – All supporting invoices, statements and other documentation should be cancelled with the date and check number to help avoid possible duplicate payment of the same invoice.

Response – All invoices, statements and other supporting documentation will be stamped paid.

Conclusion – Response accepted.

City of Farmington

Schedule of Findings

Year ended June 30, 2005

- (D) Separately Maintained Records – Farmington Emergency Medical Service maintains separate accounting 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 on a monthly basis.

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. Until this has been accomplished, the City should comply with Chapter 384.20 of the Code of Iowa.

- (E) Information Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Usage of the Internet.
- Requiring passwords to be changed at least every 60 to 90 days.
- Maintaining password privacy and confidentiality.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over computer-based systems.

Response – These policies will be taken care of as soon as possible.

Conclusion – Response accepted.

City of Farmington

Schedule of Findings

Year ended June 30, 2005

Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, culture and recreation, capital projects and business type activities 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 – We will monitor the budget more closely and amend the budget in a more accurate and timely manner, as necessary.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted that 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. These disbursements are as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Flowers et Cetera	Flower arrangements	\$63
Schiller’s Flowers and Foliage	Flower arrangements	149

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 an improper purpose is very thin.

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

Response – The City does not make this type of disbursement. The Emergency Medical Service will no longer make this type of disbursement.

Conclusion – Response accepted.

- (4) 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, 2005

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
John R. Armstrong, Mayor, owner of John's Food Center	Food and supplies for fund raisers	\$ 5,693

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 in excess of \$2,500 during the fiscal year ended June 30, 2005.

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

Response – Legal counsel will be consulted.

Conclusion – Response accepted.

- (6) 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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not approve or document approved wages for employees in the minutes record or through a Council resolution for the year ended June 30, 2005.

The Farmington Emergency Medical Service minutes were not signed.

Recommendation – The City should document wage and salary approvals in the minutes record and/or through Council resolution.

The Farmington Emergency Medical Service minutes should be signed to authenticate the record.

Response – The City will approve an annual wage resolution. Minutes will be properly signed by the Emergency Medical Service.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Farmington

Schedule of Findings

Year ended June 30, 2005

- (9) Water Revenue Capital Loan Notes – The City has not established the water revenue note sinking account as required by Section 17(b) of the water revenue capital loan note resolution.

Recommendation – The City should establish the sinking account required by Section 17(b) of the water revenue capital loan note resolution and make the required monthly transfers.

Response – A sinking account has since been established in accordance with the resolution and transfers will be made monthly, as required.

Conclusion – Response accepted.

- (10) City Code of Ordinances – The City Code of Ordinances has not been recodified in the last five years as required.

Recommendation – Chapter 380.8(1)(c) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – The City Code of Ordinances will be recodified in the coming year.

Conclusion – Response accepted.

- (11) Bank Loans – On June 11, 2004 and January 19, 2005, the City obtained bank loans of \$365,000 and \$10,000 to refinance sewer revenue bond debt and to purchase a tractor/loader, respectively. 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 – The Code of Iowa will be followed and public hearings will be held for any debt agreement entered into.

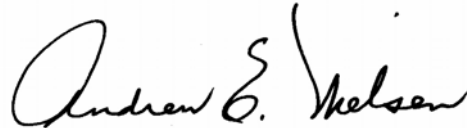
Conclusion – Response accepted.

City of Farmington

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Andrew N. Pulford, 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