

City of Farmington, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

December 31, 2017

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF FARMINGTON, ARKANSAS
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Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
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Rep. Mary Bentley
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

City of Farmington Arkansas Officials and Council Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the City of Farmington, Arkansas, as of and for the year ended December 31, 2017 and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-412, as described in Note 1, to meet the requirements permitted by the State of Arkansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-412, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements permitted by the State of Arkansas.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Farmington Arkansas, as of December 31, 2017, or the revenues, expenditures, and changes in net position and, where applicable, cash flows thereof for the year then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of the general fund, street fund, and other funds in the aggregate of the City of Farmington Arkansas, as of December 31, 2017, the regulatory basis revenues, expenditures, and changes in net position, and the budgetary comparisons for the general fund and street fund for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-412 described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis financial statements. The accompanying supplementary information and other information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole on the basis of accounting described in Note 1.

The other information has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of the state constitution, laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
August 29, 2018
LOM110217

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS,
AND OTHER ISSUES BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

City of Farmington, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the City of Farmington, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated August 29, 2018. We issued an adverse opinion because the financial statements are prepared by the City on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-412, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, with respect to the regulatory basis of accounting described in Note 1, our opinions on the general fund, street fund, and other funds in the aggregate were unmodified.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Other Issues

The following issues are not significant deficiencies, material weaknesses, or material instances of noncompliance, but are issues that are presented to assist in the efficient operation of the City.

The commentary contained in this section relates to the following officials that held office during 2017:

Mayor: Ernie Penn
City Clerk: Kelly Penn
Finance Manager: Melissa McCarville
District Court Clerk: Kim Bentley
Police Chief: Brian Hubbard

We reviewed the City's compliance with certain Arkansas laws concerning general and district court accounting, budgeting, purchasing, and investing and depositing of public funds.

Our audit procedures indicated that the offices of **City Clerk**, **Finance Manager**, and **Police Chief** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices was noted in the offices of **Mayor** and **District Court Clerk**.

Mayor

The City contracted with a company owned by a city employee for concession services at the city sports complex and paid this same employee's spouse and children a total of \$4,070 for officiating at the City sports complex, all without authorizing ordinances, as required by Ark. Code Ann. § 14-42-107.

The governing body did not review the prior year audit report and accompanying comments at the first regularly scheduled meeting following receipt of the report, as required by Ark. Code Ann. § 10-4-418.

District Court Clerk

Ark. Code Ann. § 16-10-209 requires someone outside the District Court Clerk's office as determined by the Judge to perform the reconciliation of completed citation books to the individual citations as reflected in the court dockets, if the District Court Clerk is primarily responsible for the collection of fines; however, the District Court Clerk is responsible for both of these duties.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT



Marti Steel, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 29, 2018

CITY OF FARMINGTON, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2017

Exhibit A

	General	Street	Other Funds in the Aggregate
ASSETS			
Cash and cash equivalents	\$ 4,342,831	\$ 551,616	\$ 5,389,785
Accounts receivable	295,295	6,170	82,457
TOTAL ASSETS	\$ 4,638,126	\$ 557,786	\$ 5,472,242
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 85,150	\$ 29,297	\$ 51,363
Settlements pending			32,819
Total Liabilities	85,150	29,297	84,182
Fund Balances:			
Restricted	176,504	528,489	5,388,060
Assigned	2,093,300		
Unassigned	2,283,172		
Total Fund Balances	4,552,976	528,489	5,388,060
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,638,126	\$ 557,786	\$ 5,472,242

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

CITY OF FARMINGTON, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit B

	General	Street	Other Funds in the Aggregate
REVENUES			
State aid	\$ 103,167	\$ 376,953	
Federal aid	3,500	348,240	
Property taxes	456,068	49,331	
Franchise fees	380,875		
Sales taxes	1,971,180	176,473	\$ 614,822
Fines, forfeitures, and costs	132,269		6,326
Interest	4,505	71	8,922
Local permits and fees	186,470		
County aid	155,076		
Sewer surcharge			251,736
Other	42,326	148,232	
TOTAL REVENUES	3,435,436	1,099,300	881,806
EXPENDITURES			
Current:			
General government	981,693		80,960
Law enforcement	1,044,674		
Highways and streets		782,615	196,259
Public safety	293,357		
Recreation and culture	374,336		96,300
Sewer			9,316
Total Current	2,694,060	782,615	382,835
Debt Service:			
Bond principal			821,975
Bond interest and other charges			128,745
TOTAL EXPENDITURES	2,694,060	782,615	1,333,555

CITY OF FARMINGTON, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit B

	General	Street	Other Funds in the Aggregate
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 741,376	\$ 316,685	\$ (451,749)
OTHER FINANCING SOURCES (USES) Bond proceeds			5,090,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	741,376	316,685	4,638,251
FUND BALANCES - JANUARY 1	3,811,600	211,804	749,809
FUND BALANCES - DECEMBER 31	\$ 4,552,976	\$ 528,489	\$ 5,388,060

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

CITY OF FARMINGTON, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit C

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State aid	\$ 118,909	\$ 103,167	\$ (15,742)	\$ 410,960	\$ 376,953	\$ (34,007)
Federal aid	3,500	3,500		344,434	348,240	3,806
Property taxes	603,511	456,068	(147,443)	48,491	49,331	840
Franchise fees	365,935	380,875	14,940			
Sales taxes	1,963,926	1,971,180	7,254	190,749	176,473	(14,276)
Fines, forfeitures, and costs	116,408	132,269	15,861			
Interest	3,847	4,505	658	71	71	
Local permits and fees	139,789	186,470	46,681			
County aid		155,076	155,076			
Other	87,932	42,326	(45,606)	16,818	148,232	
TOTAL REVENUES	3,403,757	3,435,436	31,679	1,011,523	1,099,300	(43,637)
EXPENDITURES						
Current:						
General government	802,354	981,693	(179,339)			
Law enforcement	1,173,004	1,044,674	128,330			
Highways and streets				766,914	782,615	(15,701)
Public safety	333,089	293,357	39,732			
Recreation and culture	394,194	374,336	19,858			
TOTAL EXPENDITURES	2,702,641	2,694,060	8,581	766,914	782,615	(15,701)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	701,116	741,376	40,260	244,609	316,685	(59,338)
FUND BALANCES - JANUARY 1		3,811,600	3,811,600		211,804	211,804
FUND BALANCES - DECEMBER 31	\$ 701,116	\$ 4,552,976	\$ 3,851,860	\$ 244,609	\$ 528,489	\$ 152,466

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

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Farmington was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City.

B. Basis of Presentation – Regulatory

The financial statements are presented in accordance with the regulatory basis of presentation as prescribed or permitted by Ark. Code Ann. § 10-4-412. The law requires that the financial statements be presented on a fund basis with, as a minimum, the general fund and street fund presented separately with all other funds included in the financial statements presented in the aggregate. This law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general and street funds; notes to financial statements; and a supplemental schedule of capital assets.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds are recognized in the accompanying regulatory basis financial statements.

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Street Fund - The Street Fund (Special Revenue Fund) is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Street Fund accounts for and reports the proceeds of state highway turnback, and property taxes that are restricted or committed for maintaining and constructing highways and streets.

Other Funds in the Aggregate - Other Funds in the Aggregate consist of all funds included in the financial statements except for the General and Street Funds. The following types of funds are included in this column as follows:

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. See Schedules 1 and 2 for the Special Revenue Fund as reported with other funds in the aggregate.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets (other than those financed by Enterprise Funds). See Schedules 1 and 2 for Capital Projects Funds as reported with other funds in the aggregate.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. See Schedules 1 and 2 for Debt Service Funds as reported with other funds in the aggregate.

Agency Funds - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). See Schedule 1 for Agency Funds as reported with other funds in the aggregate.

C. Basis of Accounting - Regulatory

The financial statements are prepared on the regulatory basis of accounting as prescribed or permitted by Ark. Code Ann. § 10-4-412. This regulatory basis differs from accounting principles generally accepted in the United States of America. Revenues generally are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. However, most state aid received from the State Treasury is by state law revenue of the year in which it was received by the government. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. As a result of the use of this regulatory basis of accounting, capital assets and long-term debt are not recorded in these financial statements.

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Balances

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts.

Settlements Pending

Settlements pending are considered fines, forfeitures, and costs that have not been transferred to the appropriate entities.

Fund Balance Classifications

1. Restricted fund balance - amounts that are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance - amounts that are constrained by the City Council's intent to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. This classification may also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

E. Property Taxes

A lien attaches to the real property in January and on personal property in June of each year. Property taxes are collectible beginning the first business day of March of the subsequent year, but are not considered delinquent until after October 15. Property taxes reflected as revenues on the financial statements include the property tax relief distribution made by the State of Arkansas. The purpose of this distribution is to reimburse the municipality for property tax credits in accordance with Arkansas Code.

F. Budget Law

State law requires that these procedures be followed in establishing the budgetary data:

- a. Prior to December 1, the Mayor submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The proposed budget is discussed at a City Council meeting prior to adoption.
- c. Prior to February 1, the budget is legally enacted by ordinance or resolution of the City Council.
- d. Appropriations lapse at the end of each year.
- e. Under certain conditions, the budget may be amended subsequent to the year-end.

The budgeted revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the Council during the year.

Basis of Accounting

The City prepared an annual budget on the regulatory basis for the General Fund, Street Fund, and the other operating funds.

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Fund Balance Classification Policies and Procedures

The Municipality's highest level of decision-making authority is its City Council. The establishment of amounts classified as committed fund balances and any subsequent modifications to such balances are the result of formal action taken by the City Council through passage of an ordinance. The City Council is authorized to assign amounts to a specific purpose, although a formal policy has not been established.

The Municipality does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Municipality does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

There were no committed fund balances at year-end.

NOTE 2: Cash Deposits with Financial Institutions

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 547,548	\$ 547,548
Collateralized:		
Collateral held by the City's agent, pledging bank, or pledging bank's trust department or agent in the City's name	9,736,584	9,793,567
Total Deposits	\$ 10,284,132	\$ 10,341,115

The above total deposits do not include cash on hand of \$100.

NOTE 3: Legal or Contractual Provisions for Deposits and Investments

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in eligible investment securities having a maturity of not longer than 5 years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity; an Arkansas bank certificate of deposit; an account established by a local government joint investment trust; or an Arkansas financial institution repurchase agreement for eligible investment securities in which the seller agrees to repurchase the investment at a price including interest earned during the holding period as determined by the repurchase agreement.

Pension Trust Funds

State law generally requires that pension funds be deposited in banks. Pension funds may be invested in interest-bearing bonds of the United States, of the State of Arkansas, or of the city in which the board is located, in a local government joint investment trust, in the Arkansas Local Police and Fire Retirement System, or in savings and loan associations duly established and authorized to do business in this state. State law also provides that if the total assets of the pension trust fund exceed \$100,000, the board may employ an investment advisor to invest the assets, subject to terms, conditions, limitations, and restrictions imposed by law upon the Arkansas Local Police and Fire Retirement System.

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4: Accounts Receivable

The accounts receivable balance at December 31, 2017, is composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Federal aid		\$ 3,806	
Property taxes	\$ 2,747	2364	
Franchise fees	90,291		
Sales taxes	191,099		\$ 63,631
Fines, forfeitures, and costs	11,158		
Sewer surcharge			18,826
Totals	<u>\$ 295,295</u>	<u>\$ 6,170</u>	<u>\$ 82,457</u>

NOTE 5: Accounts Payable

The accounts payable balance at December 31, 2017, is composed of the following:

Description	General Fund	Road Fund	Other Funds in the Aggregate
Vendor payables	\$ 20,467	\$ 24,278	\$ 51,363
Salaries payable	59,962	4,632	
Payroll taxes payable	4,721	387	
Totals	<u>\$ 85,150</u>	<u>\$ 29,297</u>	<u>\$ 51,363</u>

NOTE 6: Details of Fund Balance Classifications

Fund balance classifications at December 31, 2017, are composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Fund Balances:			
Restricted for:			
Law enforcement			\$ 36,040
Highways and streets		\$ 528,489	
Recreation and culture	\$ 176,504		
Capital outlay			4,506,049
Debt service			845,971
Total Restricted	<u>176,504</u>	<u>528,489</u>	<u>5,388,060</u>
Assigned to:			
General government	90,500		
Law enforcement	1,285,800		
Public safety	427,100		
Recreation and culture	289,900		
Total Assigned	<u>2,093,300</u>		
Unassigned	2,283,172		
Totals	<u>\$ 4,552,976</u>	<u>\$ 528,489</u>	<u>\$ 5,388,060</u>

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: Legal Debt Limit

A. Property Tax Secured Bonded Debt

The City is subject to a constitutional limitation for bonded indebtedness equal to 20% of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2017, the legal debt limit for the bonded debt was \$18,967,293. There were no property tax secured bond issues.

B. Short-term Financing Obligations

The City is subject to a constitutional limitation for short-term financing obligations equal to 5% of the assessed value of taxable property within the City as determined by the last tax assessment. At December 31, 2017, the legal debt limit for short-term financing obligations was \$4,858,379. There were no short-term financing obligations.

NOTE 8: Commitments

Total commitments consist of the following at December 31, 2017:

	December 31, 2017
Long-term liabilities	\$ 8,215,460
Construction contracts	73,150
Total Commitments	\$ 8,288,610

Long-term liabilities

Long-term liabilities at December 31, 2017 are comprised of the following:

	December 31, 2017
Sewer Revenue Bond Series 2007 for Sewer System improvements, principal amount of \$4,500,000, due in semi annual installments of \$141,788 thru October 15, 2029, and include Interest of 1.75% and a service fee of 1%. Payments are to be made from the Debt Service fund.	\$ 2,815,460
Sales and Use Tax Bond - Series 2007 for refunding the 2005 Sales and Use Tax bonds of \$2,145,000 and for sewer system improvements of \$1,765,000, principal amount of \$3,910,000, due in semi annual amounts of \$120,000 to \$310,000 plus interest through January 1, 2018. Interest of 3.70% to 4.50%. Payments are to be made from the 2007 Sales and Use Tax Refunding and Improvement Bond fund.	310,000
Sales and Use Tax Bond - Series 2017 for street and park improvements, principal amount of \$5,090,000, due in annual installments of \$115,000 to \$345,000 plus interest through October 1, 2037. Interest of 2% to 3.65%. Payments are to be made from the Sales and Use Tax Bond - Series 2017 Fund.	5,090,000
Total Long-term liabilities	\$ 8,215,460

Due to the City's regulatory basis of accounting, these liabilities are not recorded in the financial statements.

Compensated Absences

Compensated absences do vest or accumulate. The amount of compensated absences was not determined.

CITY OF FARMINGTON, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 8: Commitments (Continued)

Post Employment Benefits Other Than Pensions

The amount of any actuarially determined accrued liability for post employment benefits other than pensions was not determined.

Debt Service Requirements to Maturity

The City is obligated for the following amounts at December 31, 2017:

Years Ending December 31,	Bonds
2018	\$ 868,230
2019	637,138
2020	638,038
2021	638,837
2022	639,538
2023 through 2027	3,200,251
2028 through 2032	2,255,249
2033 through 2037	1,778,350
Total Obligations	10,655,631
Less Interest	2,440,171
Total Principal	\$ 8,215,460

Construction Contract

The City was contractually obligated for the following construction contract at December 31, 2017:

Project Name	Estimated Completion Date	Contract Balance December 31, 2017
Engineering for Highway 170 Improvement	January 1, 2022	\$ 73,150

NOTE 9: Subsequent Events

On March 12, 2018, the City approved purchasing 7 acres of land from the Farmington School District for \$157,500.

On May 14, 2018, the City accepted a bid of \$348,155 for a street drainage improvement project.

On June 11, 2018, the City approved contract in the amount of \$513,725 to acquire right of way for a highway improvement project and accepted a bid of \$106,291 for North Hunter street culvert replacement.

On July 11, 2018, former City employee, Jimmy Story, was convicted of the theft of City funds and subscribing to a false income tax return. Mr. Story was sentenced to 46 months in federal prison and ordered to pay \$1,282,966 in restitution to City of Farmington and \$371,956 to the Internal Revenue Service. Arkansas Legislative Audit (ALA) performed a review of selected transactions for the period January 1, 2009 through December 31, 2016. The full results of the review performed can be found in the report dated September 25, 2017. This report is located on the ALA website at www.arklegaudit.gov.

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10: Pledged Revenues

The City pledged future sewer surcharges to repay \$4,500,000 in bonds issued in 2007 to provide funding for improvements to the City's sewer system. Revenues from the pledged sewer surcharges for 2017 were \$251,736. Total principal and interest remaining on the bonds are \$2,815,460 and \$495,478 payable through October 15, 2029. For 2017 principal and interest paid were \$201,975 and \$81,341.

The City pledged future 1% sales and use taxes to repay \$3,910,000 in bonds that were issued in 2007 to provide funding for cost of sewer improvements. Revenues from the pledged tax for 2017 were \$519,969. Total principal and interest remaining on the bonds are \$310,000 and \$6,698, respectively, payable through January 1, 2018. For 2017, principal and interest paid were \$620,000 and \$37,853, respectively. Any sales taxes collected in excess of debt service payments on these bonds is permitted to be used for any lawful purpose.

The City pledged future 1% sales and use taxes to repay \$5,090,000 in bonds that were issued in 2017 to provide funding for street and park improvements. Revenues from the pledged tax in 2017 were \$94,853. Total principal and interest remaining on the bonds are \$5,090,000 and \$1,937,995 payable through October 1, 2037. Any sales taxes collected in excess of debt service payments on these bonds is permitted to be used for any lawful purpose.

NOTE 11: Joint Venture

Washington County Ambulance Authority

Washington County and the Cities of Elkins, Fayetteville, Farmington, Goshen, Greenland, Lincoln, Prairie Grove, West Fork, Winslow, and Johnson entered into an agreement, on March 21, 2008, pursuant to Ark Code Ann. §§ 14-14-910, 14-266-102, and 25-20-101 to establish the Washington County Ambulance Authority (Authority). The purpose of the Authority is to provide emergency and non-emergency medical services. The City paid the authority \$36,202 during 2017.

NOTE 12: Jointly Governed Organization

The Prosecuting Attorney of the Fourth Judicial District, the Washington County Sheriff's Department, Madison County Sheriff's Department, and the Police Departments of the University of Arkansas, Fayetteville, Springdale, Prairie Grove, Lincoln, Farmington, Johnson, Elkins, Greenland, West Fork, Elm Springs, Tontitown, Huntsville, and Goshen entered into an agreement to establish the Fourth Judicial District Drug Task Force. Funding was provided through Justice Assistance Grants and local funding provided by the Prosecuting Attorney's Office, Washington County Sheriff's Department, and local police departments. Separate financial statements for the Fourth Judicial District Drug Task Force were not available

NOTE 13: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements, if any, has not exceeded the insurance coverage for each of the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The City participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' Compensation - This program provides statutory benefits for losses incurred by municipal officials, employees, and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised by class code on an annual basis by the Arkansas Workers' Compensation Commission.

Municipal Vehicle Program

- A. Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is as follows: \$25,000 because of bodily injury to or death of one person in any one accident; \$50,000 because of bodily injury to or death of two or more persons in any one accident; and \$25,000 because of injury to or destruction of property of others in any one accident. The City shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and self-propelled mobile equipment owned or leased by the City.

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13: Risk Management (Continued)

Municipal Vehicle Program (Continued)

- B. Physical Damage - This program covers motor vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The City agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

Municipal Property Program - This program covers insurable property and equipment, exclusive of motor vehicles and water vessels, which belong to or are in the care, custody, or control of a participating municipality. Property is valued at the full cost to repair or replace the property after deduction of depreciation or as agreed to by the participating municipality and program. Loss amounts payable will be reduced by the deductible amount of \$5,000, or in the case of flood or earthquake, \$100,000. The municipality agrees to pay into the program each year a service charge established annually by the program administrator for property for which the municipality desires coverage.

Municipal Legal Defense Program - The program shall, at the sole discretion of the program administrators, provide extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government of a participating municipality and pay extraordinary judgments (for actual damages – not punitive damages) imposed on municipal officials and employees and the municipal government. The program shall never be liable to reimburse the municipal government, municipal officials, and employees because of judgment in any one lawsuit for more than 25% of the program's available funds at time the lawsuit was filed or the judgment becomes final, or \$1 million, whichever is less. The City agrees to pay into the program each year a charge established by the steering committee. Each city also agrees to pay the first \$3,000 of the aggregate cost for all expenses on each lawsuit. This cost deposit is not refundable.

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$300,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$2,500 deductible per occurrence.

**NOTE 14: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan)**

Plan Description

The City contributes to the Local Police and Fire Retirement System (LOPFI), an agent multiple employer retirement system that acts as a common investment and administrative agent for cities and towns in Arkansas. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Local Police and Fire Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by writing to Arkansas Local Police and Fire Retirement System, 620 W. 3rd, Suite 200, Little Rock, Arkansas 72201, by calling 1-866-859-1745, or on their website www.lopfi-prb.com.

On June 9th, 2008, administration of the City of Farmington Firemen's Pension and Relief Fund was transferred to LOPFI. The benefit structure of these plans was not changed.

Funding Policy

The employee contribution rate depends on the type of service being rendered and whether or not the service is also covered by Social Security. The different employee contribution rates required by state law are:

- A. Paid service not covered by Social Security: 8.5% of gross pay
- B. Paid service also covered by Social Security: 2.5% of gross pay
- C. Volunteer fire service: no employee contribution

CITY OF FARMINGTON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

**NOTE 14: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan) (Continued)**

The City is required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by State law. The contribution requirements of the City are established and may be amended by the LOPFI Board of Trustees. The plan is also funded with state insurance tax. The City's contribution to the plan was \$114,129 and the amount of insurance tax paid by the state to the plan for the benefit of the City was \$71,207 for the year ended December 31, 2017.

Net Pension Liability

The City's proportionate share of the collective net pension liability at December 31, 2016 (actuarial valuation date and measurement date) was \$1,684,681.

NOTE 15: Arkansas Public Employees Retirement System

Plan Description

The City contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201, by calling 1-800-682-7377, or on their website www.apers.org.

Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salary. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees of the system, based on the annual actuarial valuation. The City's contribution to the plan was \$93,694 for the year ended June 30, 2017.

Net Pension Liability

The City's proportionate share of the collective net pension liability at June 30, 2017 (actuarial valuation date and measurement date) was \$926,465.

CITY OF FARMINGTON, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2017

Schedule 1

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS		DEBT SERVICE FUNDS			AGENCY FUNDS		Totals
	Court Automation	2017 Sales and Use Tax Bond - Parks and Recreational Construction	2017 Sales and Use Tax Bond - Street Construction	2007 Sales and Use Tax Refunding and Improvement Bond	Debt Service	Sales and Use Tax Bond - Series 2017	District Court	Payroll	
ASSETS									
Cash and cash equivalents	\$ 36,040	\$ 2,118,981	\$ 2,438,431	\$ 449,275	\$ 75,362	\$ 238,877	\$ 30,928	\$ 1,891	\$ 5,389,785
Accounts receivable					18,826	63,631			82,457
TOTAL ASSETS	\$ 36,040	\$ 2,118,981	\$ 2,438,431	\$ 449,275	\$ 94,188	\$ 302,508	\$ 30,928	\$ 1,891	\$ 5,472,242
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable		\$ 51,363							\$ 51,363
Settlements pending							\$ 30,928	\$ 1,891	32,819
Total Liabilities		51,363					30,928	1,891	84,182
Fund Balances:									
Restricted	\$ 36,040	2,067,618	\$ 2,438,431	\$ 449,275	\$ 94,188	\$ 302,508			5,388,060
TOTAL LIABILITIES AND FUND BALANCES	\$ 36,040	\$ 2,118,981	\$ 2,438,431	\$ 449,275	\$ 94,188	\$ 302,508	\$ 30,928	\$ 1,891	\$ 5,472,242

CITY OF FARMINGTON, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 2

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS		DEBT SERVICE FUNDS			Totals
	Court Automation	2017 Sales and Use Tax Bond - Parks and Recreational Construction	2017 Sales and Use Tax Bond - Street Construction	2007 Sales and Use Tax Refunding and Improvement Bond	Debt Service	Sales and Use Tax Bond - Series 2017	
REVENUES							
Sales taxes				\$ 519,969		\$ 94,853	\$ 614,822
Fines, forfeitures, and costs	\$ 6,326						6,326
Interest	5	\$ 2,900	\$ 3,407	1,886	\$ 257	467	8,922
Sewer surcharge					251,736		251,736
TOTAL REVENUES	6,331	2,900	3,407	521,855	251,993	95,320	881,806
EXPENDITURES							
Current:							
General government						80,960	80,960
Highways and streets			196,259				196,259
Recreation and culture		96,300					96,300
Sewer					9,316		9,316
Total Current		96,300	196,259		9,316	80,960	382,835
Debt Service:							
Bond principal				620,000	201,975		821,975
Bond interest and other charges				37,853	81,341	9,551	128,745
TOTAL EXPENDITURES		96,300	196,259	657,853	292,632	90,511	1,333,555
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	6,331	(93,400)	(192,852)	(135,998)	(40,639)	4,809	(451,749)
OTHER FINANCING SOURCES (USES)							
Bond Proceeds		2,161,018	2,631,283			297,699	5,090,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	6,331	2,067,618	2,438,431	(135,998)	(40,639)	302,508	4,638,251
FUND BALANCES - JANUARY 1	29,709			585,273	134,827		749,809
FUND BALANCES - DECEMBER 31	\$ 36,040	\$ 2,067,618	\$ 2,438,431	\$ 449,275	\$ 94,188	\$ 302,508	\$ 5,388,060

CITY OF FARMINGTON, ARKANSAS
 NOTES TO SCHEDULES 1 AND 2
 DECEMBER 31, 2017

The following funds and descriptions represent all funds reported as other funds in the aggregate.

<u>Fund Name</u>	<u>Fund Description</u>
Court Automation	Ark. Code Ann. § 16-13-704 established fund to receive district court installment fees of 1/2 of \$5 per month on each person to be used for court-related technology.
2017 Sales and Use Tax Bond - Parks and Recreational Construction	Farmington Ordinance No. 2017-12 (August 14, 2017) authorized the issuance of sales and use tax bonds for the purpose of financing all or a portion of the costs of capital improvements; pledging a one percent sales and use tax to pay the principal of and interest on the bonds.
2017 Sales and Use Tax Bond - Street Construction	Farmington Ordinance No. 2017-12 (August 14, 2017) authorized the issuance of sales and use tax bonds for the purpose of financing all or a portion of the costs of capital improvements; pledging a one percent sales and use tax to pay the principal of and interest on the bonds.
2007 Sales and Use Tax Refunding and Improvement Bond	Farmington Ordinance 2007-11 (June 3, 2007) authorized the issuance of sales and use tax refunding bonds for the purpose of financing and refinancing the costs of sewer system improvements, pledging a one percent sales and use tax to pay the principal of and interest on the bonds.
Debt Service	Farmington Ordinance No. 2007-15 (July 30, 2007) authorized the issuance of system revenue bonds for the purpose of financing the costs of sewer system improvements.
Sales and Use Tax Bond - Series 2017	Farmington Ordinance No. 2017-12 (August 14, 2017) authorized the issuance of sales and use tax bonds for the purpose of financing all or a portion of the costs of capital improvements; pledging a one percent sales and use tax to pay the principal of and interest on the bonds.
District Court	Ark. Code Ann. § 16-10-204 established account to receive fines, forfeitures, and costs collected by the district court.
Payroll	Established to facilitate payment of payroll expenditures and related tax liabilities

CITY OF FARMINGTON, ARKANSAS
OTHER INFORMATION
SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2017
(Unaudited)

Schedule 3

	<u>December 31, 2017</u>
Land	\$ 3,942,636
Buildings	1,801,011
Equipment	<u>2,157,798</u>
Total	<u><u>\$ 7,901,445</u></u>