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TOWN OF FARMINGTON, MISSISSIPPI
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2006

RECEIVED

JUN 25 2007

STATE AUDITOR'S OFFICE

TOWN OF FARMINGTON, MISSISSIPPI
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**TOWN OF FARMINGTON, MISSISSIPPI
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**INDEPENDENT AUDITORS' REPORT
ON THE BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Honorable Mayor and Members
of the Board of Aldermen
Town of Farmington, Mississippi

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 Town of Farmington, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Farmington, Mississippi's management. Our responsibility is to express an opinion 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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Farmington, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2007, on our consideration of the Town of Farmington, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and Budgetary Comparison Schedule and corresponding notes on pages 31 through 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, 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 Town of Farmington, Mississippi's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Town of Farmington, Mississippi. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brauner, Vanstoy & Co., P.A.

March 21, 2007
Booneville, Mississippi

Town of Farmington
Management's Discussion and Analysis
For the Year Ended September 30, 2006

This Discussion and Analysis of The Town of Farmington financial performance provides an overall review of the Town's financial activities for the year ended September 30, 2006. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the Town's financial performance.

Financial Highlights

Key financial highlights for 2006 were as follows:

Total net assets increased \$476,869 or 15.7% from 2005.

Overall, the book value of capital assets increased by \$419,994 from 2005.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Town of Farmington as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Town, presenting both an aggregate view of the Town's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the Town's most significant funds with all other non-major funds presented in total in one column.

Reporting the Town of Farmington as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the Town to provide services to our citizens, the view of the Town as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Town's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the Town as a whole, the financial position of the Town has improved or diminished. However, in evaluating the overall position of the Town, non-financial information such as changes in the Town's tax base and the condition of Town capital assets will also need to be evaluated.

Town of Farmington
Management's Discussion and Analysis
For the Year Ended September 30, 2006

In the Statement of Net Assets and the Statement of Activities, all of the Town's activities are reported as Governmental Activities and Business Type Activities, which include all of the Town's services including police, fire, administration, sewer, and all other departments. The Town of Farmington has no Component units.

Reporting the Town of Farmington's Most Significant Funds

Fund Financial Statements

The analysis of the Town's major funds begins on page 11. Fund financial reports provide detailed information about the Town's major funds. Based on restrictions on the use of monies, the Town has established many funds, which account for the multitude of services provided to the Town's residents. However, these fund financial statements focus on the Town's most significant funds. In the case of the Town of Farmington, the Town's major fund is the General Fund.

Governmental Funds

Most of the Town's basic services are reported in this fund type, which shows the money flowing in and out of those funds and then the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. These fund statements provide a detailed short-term view of the general government operations and the basic service it provides. This information also helps you determine whether there are more or fewer financial resources available to be used in the near future to finance the Town's programs. The differences between governmental activities and governmental funds are described in reconciliations adjacent to the fund financial statements.

Proprietary Funds

When the customers are charged for the provided services, these services are generally reported as proprietary funds. These funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

The Town of Farmington as a Whole

Recall that the Statement of Net Assets looks at the Town as a whole. Table 1 provides a summary of the Town's net assets for 2006.

Town of Farmington
Management's Discussion and Analysis
For the Year Ended September 30, 2006

THE TOWN AS A WHOLE

(Table 1)
Net Assets
Government Wide

	Governmental Activities			Business-Type Activities			Totals		Increase (Decrease)	Percentage Change
	2006	2005	2006	2005	2006	2005				
Current and other assets	\$ 343,736	\$ 330,157	\$ 36,032	\$ (40,430)	\$ 379,768	\$ 289,727	\$ 90,041	31.08%		
Capital assets	350,835	222,956	5,424,952	5,132,837	5,775,787	5,355,793	419,994	7.84%		
Total Assets	694,571	553,113	5,460,984	5,092,407	6,155,555	5,645,520	510,035	9.03%		
Long-term debt	178,977	165,302	2,247,760	2,248,112	2,426,737	2,413,414	13,323	0.55%		
Other Liabilities	135,023	97,319	80,596	98,518	215,619	195,837	19,782	10.10%		
Total Liabilities	314,000	262,621	2,328,356	2,346,630	2,642,356	2,609,251	33,105	1.27%		
Net Assets										
Invested in Capital Assets,										
Net of Debt	171,858	57,654	3,177,192	2,884,725	3,349,050	2,942,379	406,671	13.82%		
Restricted	13,103	14,902	-	-	13,103	14,902	(1,799)	-12.07%		
Unrestricted	195,610	217,936	(44,564)	(138,948)	151,046	78,988	72,058	91.23%		
Total Net Assets	\$ 380,571	\$ 290,492	\$ 3,132,628	\$ 2,745,777	\$ 3,513,199	\$ 3,036,269	\$ 476,930	15.71%		

The Town's total assets increased \$510,035 during 2006 with business-type activities showing an increase of \$368,577 and governmental activities showing an increase of \$141,458. The major changes were a \$580,000 increase in the intergovernmental revenues; \$419,994 increase in capital assets; a \$27,510 increase in cash, and a \$6,750 increase in accounts receivable.

The Town's total liabilities increased \$33,105, mainly due to governmental activities addition of long-term debt, and an increase in accounts payable. Business-type had a reduction of accounts payable associated with the construction costs of the sewer system.

The Town's net assets increased \$476,930 due to capital grants received by both activity types for construction purposes.

Town of Farmington
Management's Discussion and Analysis
For the Year Ended September 30, 2006

Table 2 shows the Changes in Net Assets for the September 30, 2006 year end. A comparative analysis of government-wide data is as follows:

(Table 2)
Changes in Net Assets
2006

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)	Percentage Change
	2006	2005	2006	2005	2006	2005		
Program Revenues:								
Charges for services	\$ 15,301	\$ 9,630	\$ 248,047	\$ 213,255	\$ 263,348	\$ 222,885	\$ 40,463	18.15%
Grants and donations	131,540	-	448,373	-	\$ 579,913	-	\$ 579,913	100.00%
General revenues:								
Property taxes	123,160	117,952	-	-	123,160	117,952	5,208	4.42%
Other taxes and other	123,113	126,914	1,506	-	124,619	126,914	(2,295)	-1.81%
Total revenues	393,114	254,496	697,926	213,255	1,091,040	467,751	623,289	133.25%
Program Expenses:								
General government	131,429	125,678	-	-	131,429	125,678	5,751	4.58%
Public safety	116,170	130,766	-	-	116,170	130,766	(14,596)	-11.16%
Public works	50,263	14,714	-	-	50,263	14,714	35,549	241.60%
Interest on long-term debt	5,173	5,356	-	-	5,173	5,356	(183)	-3.42%
Sewer system	-	-	311,075	268,141	311,075	268,141	42,934	16.01%
Total program expenses	303,035	276,514	311,075	268,141	614,110	544,655	69,455	12.75%
Increase (decrease) in net assets	\$ 90,079	\$ (22,018)	\$ 386,851	\$ (54,886)	\$ 476,930	\$ (76,904)	\$ 553,834	-720.16%

The increase in Net Assets identified in Table 2 was due to revenues exceeding expenses during 2006. This increase was due mainly to grant revenue received for construction of additional sewer system and Town Hall renovations.

Town of Farmington
Management's Discussion and Analysis
For the Year Ended September 30, 2006

Governmental Activities

Several revenues sources fund our Governmental Activities. Under the accrual basis of accounting, revenues from charges for services and grants and entitlements, such as local government funds, accounted for \$269,954 or 69% of gross revenues; and property taxes accounted for \$123,160 or 31% of gross revenues.

Major expense activities, under the accrual basis of accounting, included: General Government expenses accounting for 21% of total program expenses; public safety expenses accounting for 19%; and sewer system accounting for 51%. The Town is committed to providing the basic services that our residents expect.

The Town's Funds

Information about the Town's major governmental funds begins on page 11. These funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of \$386,483 and expenditures of \$451,897.

The fund balance of the general fund remained relatively constant, decreasing by \$30,060.

General Fund Budgeting Highlights

The Town's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

All recommendations for a budget change come from the Town Clerk to the Board of Aldermen for Review. The Town does not allow budget changes that modify line items within departments without Board approval.

With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments. For the General Fund, original budgeted revenues and final budget amounts were \$324,019; and actual revenue collections were \$ 329,825. The major factor contributing to the increase of actual revenues over budgeted amounts was increased revenues for the category of franchise taxes.

Capital assets and debt administration

Capital Assets.

As of September 30, 2006, the Town's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities was \$350,835 and \$5,424,952, respectively. The governmental activities increased \$136,929 and business-type activities increased \$406,186. These increases were due primarily because of the renovation of Town Hall and additions to the sewer system.

Additional information of the Town's capital assets can be found in Note 5 on pages 26-27 of this report.

Town of Farmington
Management's Discussion and Analysis
For the Year Ended September 30, 2006

Debt Administration.

At September 30, 2006, the Town had \$178,977 of long-term debt outstanding and \$2,247,760 of revenue bonds outstanding with \$70,874 due within one year.

Additional information of the Town's long-term debt can be found in Note 6 on pages 27-28 of this report.

Contacting the Town's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Debora Holloway, Town Clerk, at 662-665-9647.

Town of Farmington, Mississippi
Statement of Net Assets
September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 24,177	\$ 105,044	\$ 129,221
Property tax receivable	83,687	-	83,687
Fines receivable, net	12,241	-	12,241
Accounts receivable	-	54,134	54,134
Internal balances	169,928	(169,928)	-
Intergovernmental receivables	38,133	18,222	56,355
Prepaid expenses	15,570	-	15,570
Restricted cash	-	28,560	28,560
Total Current Assets	<u>343,736</u>	<u>36,032</u>	<u>379,768</u>
Non-Current Assets:			
Capital assets-net			
Land and construction in progress	40,000	45,881	85,881
Other capital assets, net	310,835	5,379,071	5,689,906
Total Non-Current Assets	<u>350,835</u>	<u>5,424,952</u>	<u>5,775,787</u>
Total Assets	<u>694,571</u>	<u>5,460,984</u>	<u>6,155,555</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	35,841	22,575	58,416
Accrued expenses	15,092	581	15,673
Customer deposits	-	13,524	13,524
Accrued interest payable	403	43,916	44,319
Deferred revenue	83,687	-	83,687
Capital related debt-current	39,194	31,680	70,874
Total Current Liabilities	<u>174,217</u>	<u>112,276</u>	<u>286,493</u>
Non-Current Liabilities:			
Capital related debt-non current	139,783	2,216,080	2,355,863
Total Non-Current Liabilities	<u>139,783</u>	<u>2,216,080</u>	<u>2,355,863</u>
Total Liabilities	<u>314,000</u>	<u>2,328,356</u>	<u>2,642,356</u>
NET ASSETS			
Invested in capital assets, net of related debt	171,858	3,177,192	3,349,050
Restricted Net Assets			
Debt Service	13,043	-	13,043
Special revenue	60	-	60
Unrestricted	195,610	(44,564)	151,046
Total Net Assets	<u>\$ 380,571</u>	<u>\$ 3,132,628</u>	<u>\$ 3,513,199</u>

The notes to the financial statements are an integral part of this financial statement.

Town of Farmington, Mississippi
Statement of Activities
For The Year Ended September 30, 2006

Functions/Programs	Program Revenues			Primary Government		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary government:						
Governmental activities:						
General government	\$ 131,429	-	-	99,925	(31,504)	(31,504)
Public safety	116,170	15,301	-	-	(100,869)	(100,869)
Public works	50,263	-	-	31,615	(18,648)	(18,648)
Interest on long-term liabilities	5,173	-	-	-	(5,173)	(5,173)
Total Governmental Activities	<u>\$ 303,035</u>	<u>15,301</u>	<u>-</u>	<u>131,540</u>	<u>(156,194)</u>	<u>(156,194)</u>
Business-type activity						
Sewer system	311,075	248,047	-	448,373	-	385,345
Total Primary Government	<u>\$ 614,110</u>	<u>263,348</u>	<u>-</u>	<u>579,913</u>	<u>(156,194)</u>	<u>229,151</u>
General Revenues:						
Taxes:						
Property Taxes, General					97,358	97,358
Property Taxes, Debt Service					25,802	25,802
Franchise Taxes					33,775	33,775
Intergovernmental Revenue					87,232	87,232
Unrestricted investment income					1,625	1,625
Miscellaneous					1,987	1,987
Transfers, net					(1,506)	-
Total General Revenues					<u>246,273</u>	<u>247,779</u>
Change in Net Assets					90,079	476,930
Total Net Assets-Beginning					<u>290,492</u>	<u>3,036,269</u>
Net Assets-Ending					<u>\$ 380,571</u>	<u>\$ 3,513,199</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Town of Farmington, Mississippi
Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 11,772	\$ 12,405	\$ 24,177
Taxes receivable	70,925	12,762	83,687
Fines receivable	12,241	-	12,241
Due from other funds	169,928	-	169,928
Receivable from other governments	37,435	698	38,133
Total assets	\$ 302,301	\$ 25,865	\$ 328,166
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 35,841	\$ -	\$ 35,841
Accrued expenses	15,092	-	15,092
Deferred revenue	83,166	12,762	95,928
Total Liabilities	134,099	12,762	146,861
Fund balances:			
Reserved for:			
Debt Service	-	13,043	13,043
Unreserved			
General	168,202	-	168,202
Special Revenue	-	60	60
Total Fund Balances	168,202	13,103	181,305
Total liabilities and fund balances	\$ 302,301	\$ 25,865	\$ 328,166

The accompanying notes to the financial statements are an integral part of this financial statement

Town of Farmington
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of
Net Assets
September 30, 2006

Total fund balance, governmental funds	\$ 181,305
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets of \$554,803 net of accumulated depreciation of (\$203,968) are not financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	350,835
Certain other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. These include deferred fines receivable net of uncollectibles.	12,241
Long-term liabilities of \$178,977 are not due and payable in the current period and are not reported in the funds. Other related amounts include bond interest payable of \$403.	(179,380)
Prepaid expenses are not financial resources, and, therefore, are not reported in the funds.	<u>15,570</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>\$ 380,571</u></u>

The accompanying notes to the financial statements are an integral part of this financial statement

Town of Farmington, Mississippi
Statement of Revenue, Expenditures, and Changes in Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Other Governmental Funds	Total (Memorandum Only)
<u>Revenues</u>			
Ad valorem taxes	\$ 97,358	\$ 25,802	\$ 123,160
Fees and fines	7,164	-	7,164
Intergovernmental revenues	218,772	-	218,772
Investment earnings	1,625	-	1,625
Miscellaneous	1,987	-	1,987
Franchise fees	33,775	-	33,775
 Total Revenues	 <u>360,681</u>	 <u>25,802</u>	 <u>386,483</u>
<u>Expenditures</u>			
General Government	128,634	-	128,634
Public safety	109,915	-	109,915
Public works	50,263	-	50,263
Capital Outlay	136,929	-	136,929
Debt Service:			
Principal	-	21,325	21,325
Interest and Fiscal Changes	-	4,770	4,770
 Total Expenditures	 <u>425,741</u>	 <u>26,095</u>	 <u>451,836</u>
 Excess (deficiency) of Revenues Over Expenditures	 <u>(65,060)</u>	 <u>(293)</u>	 <u>(65,353)</u>
<u>Other Financing Sources (Uses)</u>			
Loan Proceeds	35,000	-	35,000
Transfers	-	(1,506)	(1,506)
Total Other Financing Sources (Uses)	<u>35,000</u>	<u>(1,506)</u>	<u>33,494</u>
Net change in fund balances	(30,060)	(1,799)	(31,859)
 Fund Balance - Beginning of Year	 <u>198,262</u>	 <u>14,902</u>	 <u>213,164</u>
 Fund Balance - End of Year	 <u>\$ 168,202</u>	 <u>\$ 13,103</u>	 <u>\$ 181,305</u>

The accompanying notes to the financial statements are an integral part of this financial statement

Town of Farmington, Mississippi
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Government-Wide Statement of Activities
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds: \$ (31,859)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay(\$136,929) exceeded depreciation(\$9,050) in the current period. 127,879

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This includes an increase of \$8,137 in the Town's fines revenue. 8,137

The proceeds of debt issuances provide current financial resources to governmental funds , but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which debt proceeds of \$35,000 exceeded debt repayments of \$21,325. (13,675)

Some expenses reported in the statement of activities do require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net increase in accrued interest of \$403. (403)

Change in net assets of governmental activities \$ 90,079

The accompanying notes to the financial statements are an integral part of this financial statement

Town of Farmington, Mississippi
Statement of Fund Net Assets
Proprietary Funds
September 30, 2006

	Business-type Activity Enterprise Fund Sewer System
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 105,044
Accounts receivable, net	54,134
Due from other governments	18,222
Total Current Assets	177,400
Noncurrent Assets:	
Restricted cash	28,560
Capital assets:	
Land and construction in progress	45,881
Other capital assets, net	5,379,071
Total noncurrent assets	5,453,512
Total Assets	5,630,912
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	22,575
Accrued Expenses	581
Due to other funds	169,928
Customer deposits	13,524
Interest payable	43,916
Revenue bonds payable-current	31,680
Total current liabilities	282,204
Noncurrent Liabilities:	
Revenue bonds payable	2,216,080
Total noncurrent liabilities	2,216,080
Total Liabilities	2,498,284
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	3,177,192
Unrestricted	(44,564)
Total Net Assets	\$ 3,132,628

The accompanying notes to the financial statements are an integral part of this financial statement

Town of Farmington, Mississippi
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2006

	<u>Business-type Activity Enterprise Fund Sewer System</u>
<u>OPERATING REVENUES</u>	
Charges for services	<u>\$ 248,047</u>
Total operating revenues	<u>248,047</u>
<u>OPERATING EXPENSES</u>	
Personal services	23,751
Contractual services	71,786
Material and supplies	3,118
Depreciation expense	<u>114,072</u>
Total operating expenses	<u>212,727</u>
Operating income	<u>35,320</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Intergovernmental revenues	448,373
Interest expense	<u>(98,348)</u>
Total nonoperating revenue (expenses)	<u>350,025</u>
Transfers from other funds	<u>1,506</u>
Change in net assets	<u>386,851</u>
Total net assets - Beginning	<u>2,745,777</u>
Total net assets - Ending	<u><u>\$ 3,132,628</u></u>

The accompanying notes to the financial statements are an integral part of this financial statement

Town of Farmington, Mississippi
Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2006

	Business-type Activity Enterprise Fund Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 241,296
Cash payments to employees	(23,171)
Cash Payments for Goods and Services	(78,266)
Net cash provided (used) by operating activities	<u>139,859</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Customer deposits	8,074
Receipt of interfund loan	718
Transfer from other funds	1,506
Net cash provided (used) by noncapital financing activities	<u>10,298</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES	
Principal payments on debt	(352)
Interest payment on debt	(98,085)
Payments for capital acquisitions	(429,664)
Capital grants received	430,151
Net cash provided (used) by capital & related financing activities	<u>(97,950)</u>
Net increae in cash and cash equivalents	52,207
Cash and cash equivalents - beginning of year	<u>81,397</u>
Cash and cash equivalents - end of year	<u>\$ 133,604</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 35,320
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation	114,072
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(6,751)
Increase (decrease) in accounts payable	(2,781)
Net cash provided (used) by operating activities	<u>\$ 139,860</u>
Classified as:	
Cash	\$ 105,044
Restricted Cash	28,560
	<u>\$ 133,604</u>

The accompanying notes to the financial statements are an integral part of this financial statement

TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

1. Summary of Significant Accounting Policies

The Town of Farmington, Mississippi was incorporated May 23, 1997. The Town operates under a Mayor-Aldermen form of government.

The accounting policies of the Town of Farmington conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the Mayor and Board of Aldermen.

B. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Fund Statements:

The Statement of Net Assets and Statement of Activities display information concerning the Town as a whole. The statements include all non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are generally financed through taxes, intergovernmental revenues and other exchange revenues are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business type activities of the Town at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the Town's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

1. Summary of Significant Accounting Policies – Continued

B. Basis of Presentation - Continued

Fund Financial Statements-

Fund financial statements of the Town are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures\expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenue is recognized when the provider government recognizes the liability to the Town. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

The financial statements of the Town are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) Pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expense are classified as non-operating in the financial statements.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collectible within the current period or within sixty days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities is incurred. Debt service expenditures and expenditures related to

TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

1. Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting – Continued

compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

GOVERNMENTAL FUNDS

The Town reports the following major governmental funds:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

PROPRIETARY FUND

The Town reports the following major enterprise fund:

Sewer System – This fund accounts for the operating activities of the Town’s sewer services.

D. Cash and Investments

State law authorizes the Town to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state.

Cash, for the purpose of the Statement of Net Assets and Statement of Cash Flows, consists of demand deposit accounts and passbook savings accounts.

E. Receivables

In the government-wide statements, receivables consist of all revenue earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon estimates by management. Major receivable balances for the governmental activities include sales tax, property taxes, grants and police fines. Business-type activities report utilities earnings as their major receivables.

The 2006 taxes of \$83,687 are included in deferred revenue and not current revenue in the governmental activities because they are levied to fund the 2006-2007 budget year.

Business-type activities record bad debts on the direct write-off method. In an allowance had been established, it would not be material to the financial statements.

F. Interfund Transactions and Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payments are classified as “due from other funds” or “due to other funds” on the balance sheet.

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies - Continued

F. Interfund Transactions and Balances -- Continued

Payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

G. Inventories and Prepaid Items

Prepays are payments to vendors that benefit future reporting periods also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide financial statements.

H. Capital Assets

Capital outlays are recorded as expenditures of the Governmental Funds and as assets in the government-wide financial statements, to the extent the Town's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. Capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. As permitted by GASB Statement No. 34, the Town has elected to not report public domain (infrastructure) capital assets acquired prior to October 1, 2003.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	-	N/A
Infrastructure	-	20/50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5/10 years
Furniture and equipment	5,000	3/7 years
Sewer System	-	50 years

TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

1. Summary of Significant Accounting Policies - Continued

I. Long-term liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligations indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Fund Equity

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowing attributable to the acquisition, constructions or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

1. Summary of Significant Accounting Policies - Continued

J. Fund Equity (continued)

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

K. Property Tax Revenues

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the town. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at the meeting in September, levies property taxes for the ensuing fiscal year, which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

All ad valorem taxes are collected and remitted to the Town by the Alcorn County Tax Collector.

L. Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

1. Summary of Significant Accounting Policies - Continued

M. Compensated Absences

The Town allows employees to accumulate up to 12 days sick leave per year. Earned vacation time is generally required to be used within one year of accrual. Sick leave is generally paid upon illness while in the employment of the Town. Any accumulated vacation that was not allowed to be taken due to work-related assignments is paid at the end of the year. Any unused sick leave is paid at the end of the year.

N. Budgets

Budgets are adopted on a basis consistent with state statutes. Revenues are budgeted on a cash basis. Expenditures are budgeted on a cash basis but include those made within 30 days after the fiscal year end.

Budget amendments are approved by the Board of Aldermen when made. Final budget amendments are to be made and approved no later than September 30 of the fiscal year.

2. Deposits and Investments

The collateral for public entities deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under the program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by the institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

At year end, the carrying amount of the Town's deposits was \$157,781 and the bank balance was \$163,183.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the Town will not be able to recover deposits of collateral securities that are in the possession of an outside party. The Town does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the Town. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the Town. As of September 30, 2006, none of the Town's bank balance of \$163,183 was exposed to custodial credit risk.

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

3. Balances and Transfers

A. The following is a summary of amounts due from/to other funds:

	<u>Due From</u>	<u>Due To</u>	<u>Reason for Loan</u>
Governmental Funds:			
Major Fund:			Temporary cash shortage
General Fund	\$ 169,928	\$ -	in Sewer Fund
Proprietary Fund:			Temporary cash shortage
Sewer	-	169,928	in Sewer Fund
Total	<u>\$ 169,928</u>	<u>\$ 169,928</u>	

B. Transfers and Payments

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers of resources. Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and assets acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. The Governmental and business-type funds financial statements generally reflect such transactions as transfers.

4. Intergovernmental Receivables

Intergovernmental receivables at September 30, 2006 consisted of the following:

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Alcorn County Tax Collector	\$ 3,332
State Tax Commission Sales Tax	3,186
CDBG Emergency Grant	31,615
Total Governmental Activities	<u>\$ 38,133</u>

Business-Type Activities:

EPA Grant	<u>\$ 18,222</u>
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**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

5. Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2006:

	Balance Oct. 1, 2005	Additions	Deletions	Completed Construction	Balance Sept. 30, 2006
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 40,000	\$ -	\$ -	\$ -	\$ 40,000
Construction in progress	-	-	-	-	-
Total non-depreciable capital assets	40,000	-	-	-	40,000
<u>Depreciable capital assets:</u>					
Buildings	167,509	136,929	-	-	304,438
Mobile equipment	210,365	-	-	-	210,365
Furniture and equipment	-	-	-	-	-
Total depreciable capital assets	377,874	136,929	-	-	514,803
<u>Less accumulated depreciation for:</u>					
Buildings	20,150	4,445	-	-	24,595
Mobile equipment	174,768	4,605	-	-	179,373
Total accumulated depreciation	194,918	9,050	-	-	203,968
Total depreciable capital assets, net	182,956	127,879	-	-	310,835
Governmental activities capital assets, net	<u>\$ 222,956</u>	<u>\$ 127,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 350,835</u>
Business Type Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 40,000	\$ -	\$ -	\$ -	40,000
Construction in Progress	41,700	403,687	-	(439,506)	5,881
Total non-depreciable capital assets	81,700	403,687	-	(439,506)	45,881
<u>Depreciable capital assets:</u>					
Sewer system	5,261,601	2,500	-	439,506	5,703,607
Total depreciable capital assets	5,261,601	2,500	-	439,506	5,703,607
<u>Less accumulated depreciation for:</u>					
Sewer system	210,464	114,072	-	-	324,536
Total accumulated depreciation	210,464	114,072	-	-	324,536
Total depreciable capital assets, net	5,051,137	(111,572)	-	439,506	5,379,071
Business Type Activities: Capital assets, net	<u>\$ 5,132,837</u>	<u>\$ 292,115</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,424,952</u>

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

5. Capital Assets - Continued

Construction in progress is composed of the following:

<u>Business-Type Activities</u>	<u>Spent to September 30, 2006</u>	<u>Remaining Commitment</u>
Sewer System Expansion	<u>\$ 5,881</u>	<u>\$ 2,969</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 2,795
Public safety	<u>6,255</u>
Total governmental activities depreciation expense	<u>\$ 9,050</u>
Business Type Activities:	
Sewer System	
Total business type activities	<u>\$ 114,072</u>

6 Long-Term Debt

Debt outstanding as of September 30, 2006, consist of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
Governmental Activities:			
Loans Payable:			
\$35,000 Town Hall Loan	\$ 35,000	4.95%	7/7/2008
\$70,000 Fire Station Loan	54,168	3.000%	5/1/2021
\$185,000 Fire Truck Loan	<u>89,809</u>	3.000%	5/1/2011
Total Loans Payable	<u>\$ 178,977</u>		
Business-type Activities:			
Revenue Bonds:			
Sewer System Bond 2004	<u>\$ 2,247,760</u>	4.375%	4/2039
Total Revenue Bonds	<u>\$ 2,247,760</u>		

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

6. Long-Term Debt - Continued

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities: Year Ending September 30,	Loans Payable	
	Principal	Interest
2007	\$ 39,194	\$ 5,730
2008	40,664	4,259
2009	23,462	2,632
2010	24,177	1,919
2011	13,683	1,265
2012-2016	19,017	4,276
2017-2021	18,780	1,259
Total	\$ 178,977	\$ 21,340

Business Type Activities: Year Ending September 30,	Sewer Revenue Bonds	
	Principal	Interest
2007	31,680	98,437
2008	33,066	97,052
2009	34,513	95,605
2010	36,023	94,095
2011	37,599	92,519
2012-2016	214,153	436,433
2017-2021	265,283	385,305
2022-2026	328,617	321,969
2027-2031	407,074	243,513
2032-2036	504,262	146,326
2037-2039	355,490	31,710
Total	\$ 2,247,760	\$ 2,042,964

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

	Balance Oct. 1, 2005	Additions	Reductions	Adjustments	Balance Sept. 30, 2006	Amount due within one year
Governmental Activities						
Town Hall Loan	\$ -	35,000	-	-	35,000	17,096
Fire Station Loan	57,117	-	2,949	-	54,168	3,082
Fire Truck Loan	108,185	-	18,376	-	89,809	19,016
Total	\$ 165,302	35,000	21,325	-	178,977	39,194
Business Type Activities:						
Sewer System						
Revenue Bond	\$ 2,248,112	-	352	-	2,247,760	31,680
Total	\$ 2,248,112	-	352	-	2,247,760	31,680

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

7. Commitments and Contingencies

Contingencies

The Town receives Federal and State Grants for specific purpose that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of Town management, such disallowances, if any, will not be significant to the Town's financial statements.

8. Litigation

There is no threatened or pending litigation involving the Town of Farmington, Mississippi, at September 30, 2006.

9. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Segment Information

The Town issues revenue bonds to support the Sewer System Fund. The fund financial statements report as a major fund with revenue-supported debt for the Sewer Fund. Services provided by this fund are described in Note 1 C.

11. Defined Benefit Pension Plan

Plan Description

The Town of Farmington contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost sharing multiple-employer defined benefit pension plan. PERS 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 may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary, and the Town of Farmington is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Farmington's contributions to PERS for the year ended September 30, 2006 and 2005 was \$12,815 and \$6,281 respectively, which equals the required contributions for each year. The Town of Farmington became a member in March, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Farmington, Mississippi
Schedule of Revenue, Expenditures, and Changes in Fund Balance -
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive (Negative)
Property taxes	\$ 98,119	\$ 98,119	\$ 96,906	\$ (1,213)
Franchise taxes	27,900	27,900	33,775	5,875
Fines and forfeitures	7,000	7,000	7,164	164
Intergovernmental revenues	190,100	190,100	188,368	(1,732)
Miscellaneous	900	900	3,612	2,712
Total Revenues	<u>324,019</u>	<u>324,019</u>	<u>329,825</u>	<u>5,806</u>
General Government	138,065	138,065	128,694	9,371
Public safety	121,857	121,857	109,915	11,942
Public works	17,900	17,900	18,649	(749)
Capital outlay	109,260	109,260	136,929	(27,669)
Total Expenditures	<u>387,082</u>	<u>387,082</u>	<u>394,187</u>	<u>(7,105)</u>
Excess of Revenues Over (Under) Expenditures	<u>(63,063)</u>	<u>(63,063)</u>	<u>(64,362)</u>	<u>(1,299)</u>
Other Financing Sources				
Loan Proceeds	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>35,000</u>
Net change in fund balances	(63,063)	(63,063)	(29,362)	33,701
Fund Balance - Beginning of Year	<u>198,262</u>	<u>198,262</u>	<u>198,262</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 135,199</u>	<u>\$ 135,199</u>	168,900	<u>\$ 33,701</u>
Adjustments to conform with GAAP:				
Revenue Accrual			30,856	
Expenditure Accrual			<u>(31,615)</u>	
Fund Balance - End of Year (GAAP Basis)			<u>\$ 168,141</u>	

The accompanying notes to the financial statements are an integral part of this financial statement

**TOWN OF FARMINGTON, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

A. Budgetary Information

Statutory requirements dictate how and when the Town's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the Town, using historical and anticipated fiscal data and proposed budgets submitted by the Town Clerk and Chief of Police for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investments balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, it may make revisions to the budget.

The Town's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation

The Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (non GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

Budget/GAAP Reconciliation:

The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Supplemental Information

Town of Farmington
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

<u>Federal Agency Pass-through Entity/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing & Urban Development</u>			
Passed-through Mississippi Department of Economic & Community Development:			
Community Development Block Grant Small Cities Program	14.219	99-430-PF-01	\$ 2,500
Community Development Block Grant Small Cities Program	14.219	1123-06-430-EPP-01	31,615
Community Development Block Grant Small Cities Program	14.219	MC-639	<u>99,925</u>
Total U.S. Department of Housing & Urban Development			<u>134,040</u>
<u>U.S. Environmental Protection Agency</u>			
Environmental Protection Agency	66.202	N/A	<u>403,686</u>
Total for All Federal Awards			<u><u>\$ 537,726</u></u>

Notes to the Schedule of Expenditures of Federal Awards:

Note A: Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Farmington, Mississippi, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Town of Farmington
Schedule of Surety Bonds for Municipal Officials
September 30, 2006

	<u>Position</u>	<u>Surety</u>	<u>Bond Amount</u>
Henry Barnett	Alderman	Western Surety	10,000
Dale Fortenberry	Mayor	Western Surety	10,000
Deborah Holloway	Clerk	Western Surety	50,000
Anthony Holmes	Police Chief	Western Surety	50,000
Kevin Maxcy	Alderman	Western Surety	10,000
Martin King	Alderman	Western Surety	10,000
Thomas Grisham	Alderman	Western Surety	10,000
Jeffery Patterson	Alderman	Western Surety	10,000
Janell C. Smith	Deputy Clerk	Western Surety	10,000

**TOWN OF FARMINGTON, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Issue Date</u>	<u>Balance 10/1/2005</u>	<u>Additions (Retirements)</u>	<u>Balance 9/30/2006</u>
Governmental Funds:				
<u>Notes Payable</u>				
\$ 35,000 Town Hall Loan	7/7/2006	\$ -	\$ 35,000	\$ 35,000
\$ 70,000 Fire Station CAP Note	6/9/2000	57,117	(2,949)	54,168
\$ 185,000 Fire Truck CAP Note	6/9/2000	<u>108,185</u>	<u>(18,376)</u>	<u>89,809</u>
Total Notes Payable		<u>165,302</u>	<u>13,675</u>	<u>178,977</u>
 Proprietary Funds:				
<u>Revenue Bonds</u>				
Enterprise:				
2004 Sewer Revenue Bond	4/29/2004	2,248,112	(352)	2,247,760
Total Debt		<u>\$ 2,413,414</u>	<u>\$ 13,323</u>	<u>\$ 2,426,737</u>



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

Honorable Mayor and Members
of the Board of Aldermen
Town of Farmington, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Farmington, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise Town of Farmington, Mississippi's basic financial statements and have issued our report thereon dated March 21, 2007. 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 *Governmental 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 Town of Farmington, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 Town of Farmington, Mississippi'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 as item 2006-1.

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 consider item 2006-1 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Mayor and Board of Aldermen, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Braun, Vanstoy & Co., P.A.

March 21, 2007
Booneville, Mississippi



CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members
of the Board of Aldermen
Town of Farmington, Mississippi

Compliance

We have audited the compliance of the Town of Farmington, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Farmington, Mississippi's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Farmington, Mississippi's compliance with those requirements.

In our opinion, the Town of Farmington, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control over Compliance

The management of the Town of Farmington, Mississippi is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town Farmington's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Mayor and Board of Aldermen, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Brauner, Vanstony & Co., P.A.

March 21, 2007
Booneville, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor and Members
of the Board of Aldermen
Town of Farmington, Mississippi

We have audited the basic financial statements of the Town of Farmington, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated March 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit program recommended by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures and our audit of the basic financial statements disclosed an instance of noncompliance with state laws and regulations which is described as follows:

Finding: While it is apparent that the Town exercised care to ensure that actual expenditures did not exceed their budget amounts, there two instances where actual expenditures exceeded their budget amounts.

Recommendation: Greater care should be taken in reviewing the budgeted vs. actual comparisons, and amending the budget or curtailing the expenditures as circumstances require.

Response: Greater care will be taken by the Clerk, Mayor and Board of Aldermen to ensure each budgeted line item is not exceeded or that the budget is amended as required.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended for the information and use of the Mayor and Board of Aldermen, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Brawner, Vanstory & Co., P.A.

March 21, 2007
Booneville, Mississippi

**TOWN OF FARMINGTON, MISSISSIPPI
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 1: Summary of Auditor's Results

- | | |
|---|-------------|
| (1) Type of auditor's report issued on the primary government financial statements: | Unqualified |
| (2) Material noncompliance relating to the primary government financial statements? | No |
| (3) Internal control over financial reporting: | |
| (a) Material weakness identified? | Yes |
| (b) Reportable condition identified that is not considered to be a material weakness? | No |

Federal Awards

- | | |
|---|---------------|
| (4) Type of auditor's report issued on compliance of major federal programs: | Unqualified |
| (5) Internal control over major programs: | |
| (a) Material weakness identified? | No |
| (b) Reportable condition identified that is not considered to be a material weakness? | No |
| (6) Any findings reported as required by Section ____, 510(a) of Circular A-133? | No |
| (7) Federal programs identified as major programs: | |
| U.S. Environmental Protection Agency | |
| Environmental Protection Agency | CFDA # 66.606 |
| (8) Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| (9) Auditee qualified as a low risk auditee? | No |
| (10) Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____, 315(b) of OMB Circular A-133? | No |

**TOWN OF FARMINGTON, MISSISSIPPI
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 2: Findings Related to the Financial Statements

2006-1 Finding

Due to limited personnel and the size of the town, there is a lack of segregation of duties.

Recommendation

Due to the size of the town and limited financial resources, a segregation of duties cannot be obtained. We, therefore, recommend that the mayor and board of aldermen continue to oversee the day to day operation of the town and continue to authorize all expenditures before they are made.

Response:

The Mayor and Board of Aldermen will continue to approve all expenditures prior to purchase and approve all payments for expenditures. The Mayor and Board of Aldermen will continue to review monthly financial statements.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.