

Comprehensive Annual Financial Report

City of Farmington

New Mexico

July 1, 2005 - June 30, 2006



**CITY OF FARMINGTON
NEW MEXICO
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For The Year Ended June 30, 2006

Prepared By:

Administrative Services Department

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Sheree Wilson, General Accountant

Steve Ellison, Financial Accountant

Carol Taulbee, Administrative Accountant

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INTRODUCTORY SECTION



CITY OF FARMINGTON

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<http://www.fmtn.org>

December 1, 2006

To the Honorable Mayor, City Council Members, and Citizens of the City of Farmington, New Mexico:

State law requires that all general-purpose local governments publish, within five months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Farmington for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Farmington. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Farmington has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the City of Farmington's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Farmington's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

David Berry CPA, PC has audited the City of Farmington's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Farmington, for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Farmington's financial statements, for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Farmington was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements

involving the administration of federal awards. This information is presented in the Single Audit section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Farmington's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Farmington is located in the northwest corner of the State of New Mexico in what is commonly called the Four Corners Area (see map on page x). The City was originally incorporated in 1901 and has a current land area of 31.03 square miles and serves a population of 43,200. The government is empowered to levy a property tax on both real and personal property located within its boundaries. However, the majority of City revenue is generated by a state Gross Receipts Tax (GRT) collected by the New Mexico Taxation and Revenue Department on most business services and sales of tangible personal property. A portion of the State's share of this tax (1.225%) plus any local municipal option component is then distributed back to the municipality by the Department.

The current total in-city GRT rate is 7.0% and includes the City's local option taxes in the amount of 1.1875%. Together with the 1.225% State share, the City's tax rate amounts to 2.4125%. Another .625% in local option tax authority is available to the City, but to date has not been imposed.

The City of Farmington has operated under the council/manager form of government since 1965. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four council members. The City council is responsible, among other things, for adopting ordinances, adopting the budget, appointing committees, and appointing the City Manager, City Clerk, and the City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and appointing directors of the various departments. The Council is elected on a non-partisan basis. Council Members serve four-year staggered terms, with two Council Members elected every two years. The Mayor is elected to serve a four-year term. The four Council Members are elected by district and the Mayor is elected at large.

The City of Farmington provides a full range of services including police and fire protection; the construction, operation, and maintenance of multi-utility systems; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events.

The annual budget serves as the foundation for the City of Farmington's financial planning and control. All departments of the City of Farmington are required to submit requests for appropriation to the City Manager on or before the last day in March each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to May 31. The City Council is required to hold public hearings on the proposed budget and to adopt a preliminary budget by June 1 and a final budget no later than July 30 of each year. The City of Farmington's fiscal year begins July 1 of each year and ends on June 30. The appropriated budget is prepared according to fund,

function (e.g. public safety), and department (e.g. police). Department directors may make transfers of appropriations within a fund and between their divisions. Transfers of appropriations between funds, however, require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 20 as part of the basic financial statements for the governmental funds. Budget to actual comparisons for all other funds are presented in the non-major governmental funds, internal service fund, and enterprise funds sections of this report.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the City of Farmington operates.

Local economy. The local economy has historically been based on the natural resource extractive industry, two large coal-fired electric generating stations, and Farmington's geographical position as a regional retail center catering to a regional population base of more than 225,000. Historically, the local economy has fluctuated in cycles that correspond to the price of oil and natural gas. In the last five years however, energy prices have dramatically increased and retail/services/tourism have continued to develop as major sources of revenue. During the past year, GRT revenue increased 15.9% and Lodgers Tax revenue was up 12.7% from the prior fiscal year. Electric Utility operating revenue decreased 1.5% over the prior year. Strong energy markets, continued construction activity, and an improving service sector are indicators that the local economy has improved over last year. Revenue projections for the next fiscal year indicate a return to a growth mode, albeit at a lower level than the 9% historical average. Growth in retail sales are expected to continue as Wal-mart, the world's largest retailer, opened a second store in Farmington in May, 2006.

During FY 2004, the U.S. Office of Management and Budget designated Farmington as the central city of the Farmington-San Juan County Metropolitan Statistical Area. This designation qualifies Farmington for various Federal entitlement programs and, more importantly, increases the visibility of Farmington in various national economic databases that should highlight the desirability of Farmington as a potential business location.

Although just recently designated a Metropolitan Statistical Area, Farmington has participated in a national urban cost of living survey for many years. As a participant in this survey, Farmington is compared with about 400 other cities in the American Chamber of Commerce Researchers Association's Cost of Living Index. This index measures six different cost of living components such as housing, transportation, and utilities and then rates each city in terms of the national average. In a recent survey, Farmington's cost of living index was 100% of the national average.

As our locality and facilities continue to gain recognition, Farmington will host more national and regional events in baseball, softball, soccer, swimming, mountain biking, and off-road rock climbing, as well as numerous conventions and the National High School Finals Rodeo (NHSFR). The NHSFR was hosted by San Juan County in 2002 and 2003 and proved to be a successful event for the County and the City of Farmington. In January, 2004 the City, San Juan County, and other local agencies were successful in their bid to again host the NHSFR rodeo in 2008 and 2009. These events

will again be a boost to the local economy.

With respect to the National High School Finals Rodeo (NHSFR), in 2004 the City in conjunction with other local governments and agencies beat out two sites from Washington State for the right to host the event in 2008 & 2009. This event is billed as the "World's Largest Rodeo". When the NHSFR was held in San Juan County in July 2002 & 2003, more than 1500 contestants participated. In addition, an average of 7,100 spectators attended each performance. As a result, more than \$11 million was brought into the New Mexico economy.

The community of Farmington annually hosts the Connie Mack World Series which continues to be a popular and beneficial event for the community. This national tournament for amateur baseball's best 17 and 18 year-olds brings in 10 teams from across the country. The teams hail from regions throughout the contiguous United States as well as Puerto Rico and Canada. It is one of the largest spectator attended events in the state of New Mexico and provides a significant economic boost to the entire region. The Series began in Farmington in 1965.

The City of Farmington was also recently awarded the bid to host the Western Zones Swim Meet in the summer of 2007. There are four (4) nationwide swim zones and the Western Swim Zone includes state swim teams from Alaska, Hawaii, and all the western United States. More than 850 registered athletes with 17 teams from the Western United States will participate in this swimming qualification competition at the Farmington Aquatic Center. This swim meet will qualify the winners for continued national competition.

San Juan Regional Medical Center (SJRMC) of Farmington will complete a \$70 million expansion and renovation project in August 2006. The East Tower expansion project of SJRMC will add 72 private patient rooms, 8 new operating suites, a recovery room, and several day surgery rooms. A new entrance, lobby, and public square will also be part of the new addition. A financing partnership between the hospital and the community is paying for the project, which will also include renovation of the existing five-story facility following completion of the East Tower expansion. San Juan County voters approved a \$25-million, one-eighth cent gross receipts tax in 2003 to help pay for the expansion and renovation at San Juan Regional. SJRMC is funding the remainder of the project. This expansion project is another example of the growth that the community of Farmington is experiencing.

The region (which includes the City of Farmington and surrounding rural areas within the same county) has an employed labor force of approximately 57,600, an increase of 2.3% over last year mostly attributable to an increase in oil & gas production. Major employers include a regional medical center, four public school districts, a community college, a coal mining operation, two electrical power generation plants, and two Wal-Mart superstores. Meanwhile, there continues to be a discernible trend toward steady residential growth of about 2% per year.

Long-term financial planning. The construction of a new library was completed during FY 2003. This \$9.7 million project was financed with \$7.6 million of gross receipts tax revenue bonds issued in November 2001 and the balance from the General Fund's existing cash balance from within the general fund. A major project completed in FY 2004 was the wastewater treatment plant expansion, which has been financed with a 3 percent \$14.2 million loan from the New Mexico Environment Department (NMED). The first loan payment of \$952,997 is due July 1, 2007 and the final loan payment will be July

2026. The treatment plant's capacity has been increased by 15% to meet a projected 6.67 mgd flow rate. In addition, increased reliability and flexibility has been obtained through the rehabilitation of the primary clarifiers and sludge drying beds as well as the capacity expansion of the disinfection process.

The wastewater treatment plant's next expansion phase for a new facility that will more efficiently treat three million gallons of waste per day, is scheduled for FY 2009 with design work to begin in the fall of FY 2006. Construction for this expansion project will be budgeted in FY 2009 at an estimated cost of \$7 million. It is anticipated the City will be working with the NMED on an additional low interest loan through the Clean Water State Revolving Fund Program.

As part of the plan to ensure a secure, reliable, and economical power source for utility customers, the electric utility completed an evaluation of various options for new generation, and, after the successful completion of several bond defeasances, has significantly reduced outstanding debt. In FY 2004, the Electric Utility initiated construction of a new \$59 million, 60 megawatt, gas-fired electric power plant with construction funded from existing cash reserves. The new plant went into operation in May, 2005.

In FY 2005, the City issued \$5,725,000 of Series 2005 Sales Tax Revenue Bonds to construct, furnish, equip and improve fire-fighting facilities, and acquire and rehabilitate fire-fighting equipment. Fire Station 6, completed in July 2006, provides much-needed response and emergency service coverage to the west side of the city. In addition to the new state-of-the-art fire station, the bond proceeds purchased two new 95 foot platform ladder trucks and three 75 foot aerial ladder trucks.

Other long-term financial planning is incorporated into the City of Farmington's Comprehensive Plan approved by the City Council in October 2002. This plan was developed in a multi-stage process and provides the vision, goals, objectives, and actions necessary to direct the City's progress over the next twenty years. It is an official public document that will serve as the guide for policy decisions relating to the physical, social, and economic growth of the community. In addition to providing goals and objectives, the plan assesses the opportunities and challenges facing the City and sets priorities for an implementation program that outlines specific actions and practical results. This planning document will serve as a planning guide for future financial capital investments. It is also currently serving as the springboard for development of a Metropolitan Redevelopment Plan (MRP) covering all three downtown neighborhoods.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposits, obligations of the U.S. Treasury, overnight deposits, money market accounts, and the State Treasurer's investment pool. The City earned interest revenue of \$858,611 on all governmental investments including capital projects and internal service funds and \$1,454,975 on all proprietary funds for the year ended June 30, 2006. The maturities of the investments range from overnight to 3 years. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, all investments were protected by federal depository insurance, adequate collateral, or the full faith and credit of the United States Government.

Risk management. The City continues to maintain a self-insured program for health, workers' compensation, property, boiler and machinery, pollution, crime, and general liability insurance. The workers compensation and general liability programs continued to

be financially sound throughout FY 2006, while the health fund's cash balance increased to \$1,507. Management will review the fiscal stability of the health insurance fund in FY 2007 and make appropriate modifications to the plan. The risk management and workers compensation funds were transferred to the general fund as separate divisions in the legal and human resources departments in FY 2004.

Pension and other post-employment benefits. The City's full time employees participate in a defined benefit contributory retirement plan through the Public Employees' Retirement Association (PERA) of the State of New Mexico. The plan is authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). PERA is the administrator of the plan, which is a cost-sharing, multiple-employer public employee retirement plan. Actual pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued financial report of the PERA.

Awards and Acknowledgements.

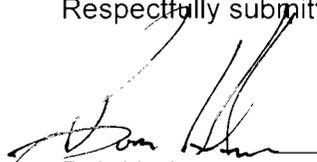
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Farmington for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the eleventh consecutive year that the City of Farmington received this prestigious award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City of Farmington also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for FY 2006. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. We would like to express our appreciation to all members of the Division who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Farmington's finances.

Respectfully submitted,



Bob Hudson
City Manager



H. Andrew Mason
Administrative Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Farmington
New Mexico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

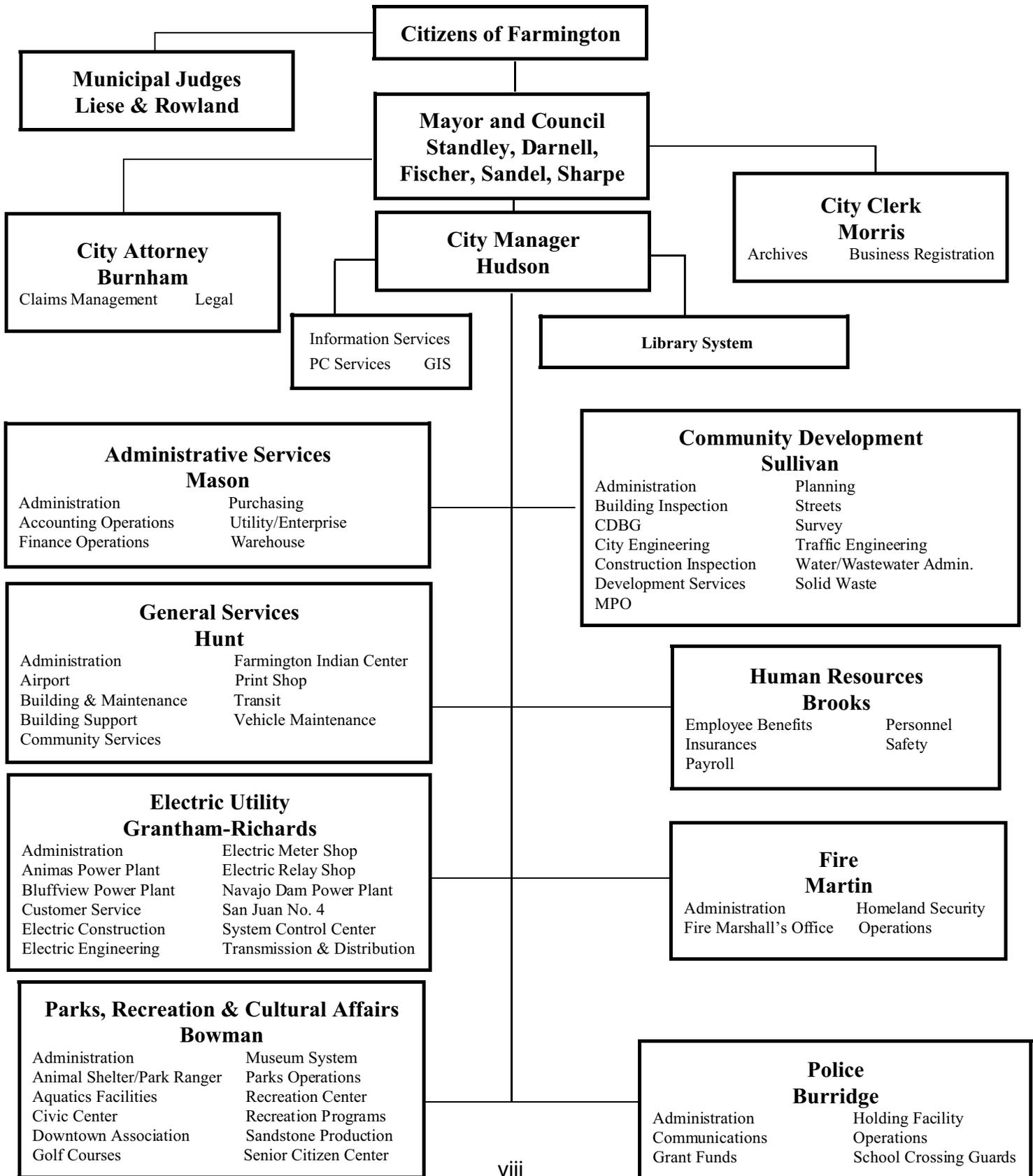


President

Executive Director

CITY OF FARMINGTON ORGANIZATIONAL CHART

June 2006



CITY OF FARMINGTON

Principal Officials

June 30, 2006

MAYOR

William Standley

CITY COUNCIL

Mary M. Fischer

George Sharpe

Dan Darnell

Jason Sandel

CITY MANAGER

Bob Hudson

ADMINISTRATIVE SERVICES DIRECTOR

H. Andrew Mason

GENERAL SERVICES

Rod Hunt

PARKS & RECREATION

Jeff Bowman

POLICE

Michael Burridge

FIRE

Robert Martin

COMMUNITY DEVELOPEMENT

Michael Sullivan

HUMAN RESOURCES

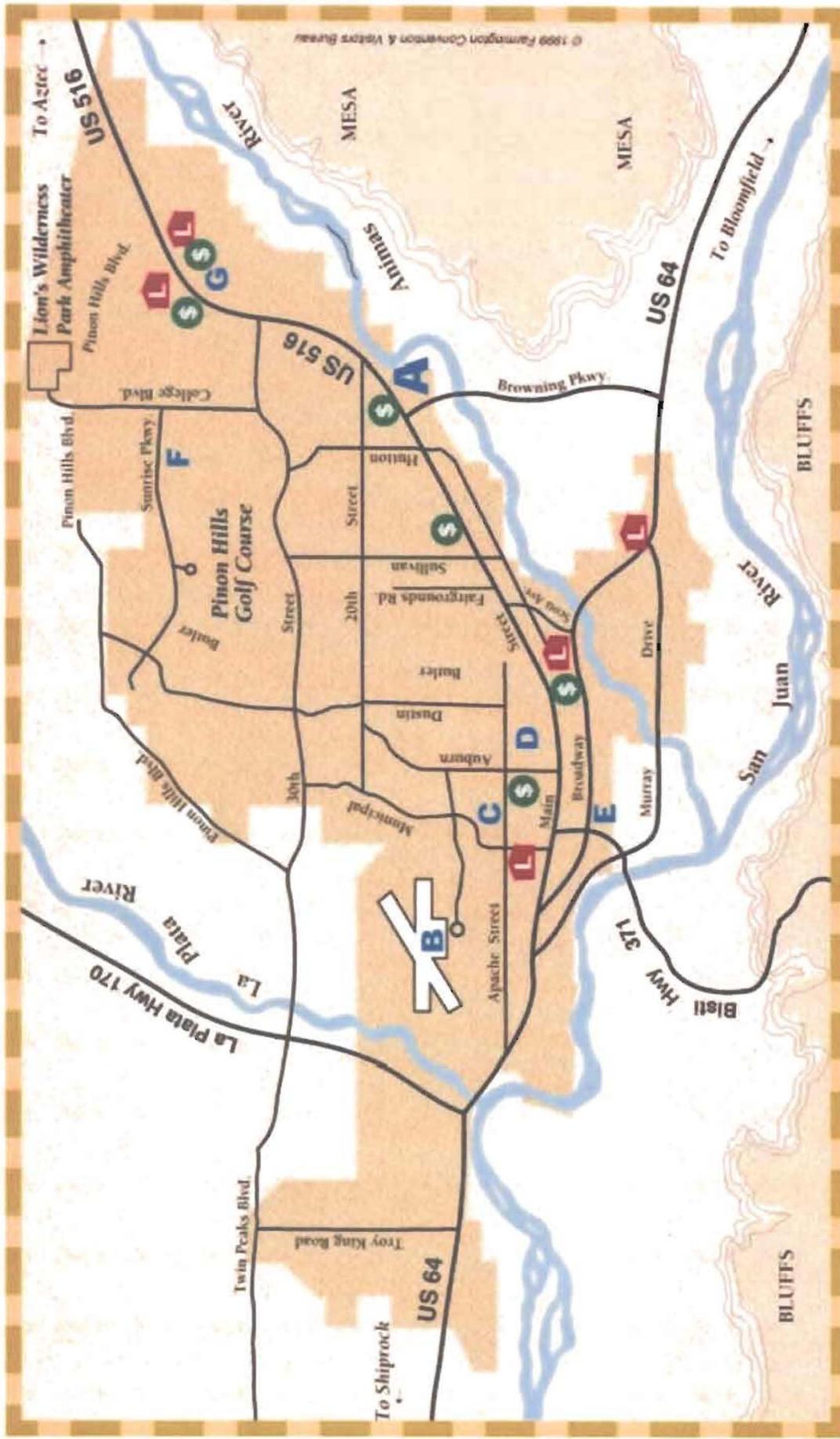
Donna Brooks

ELECTRIC UTILITY DIRECTOR

Maude Grantham-Richards

CONTROLLER

Eric D. Schlotthauer



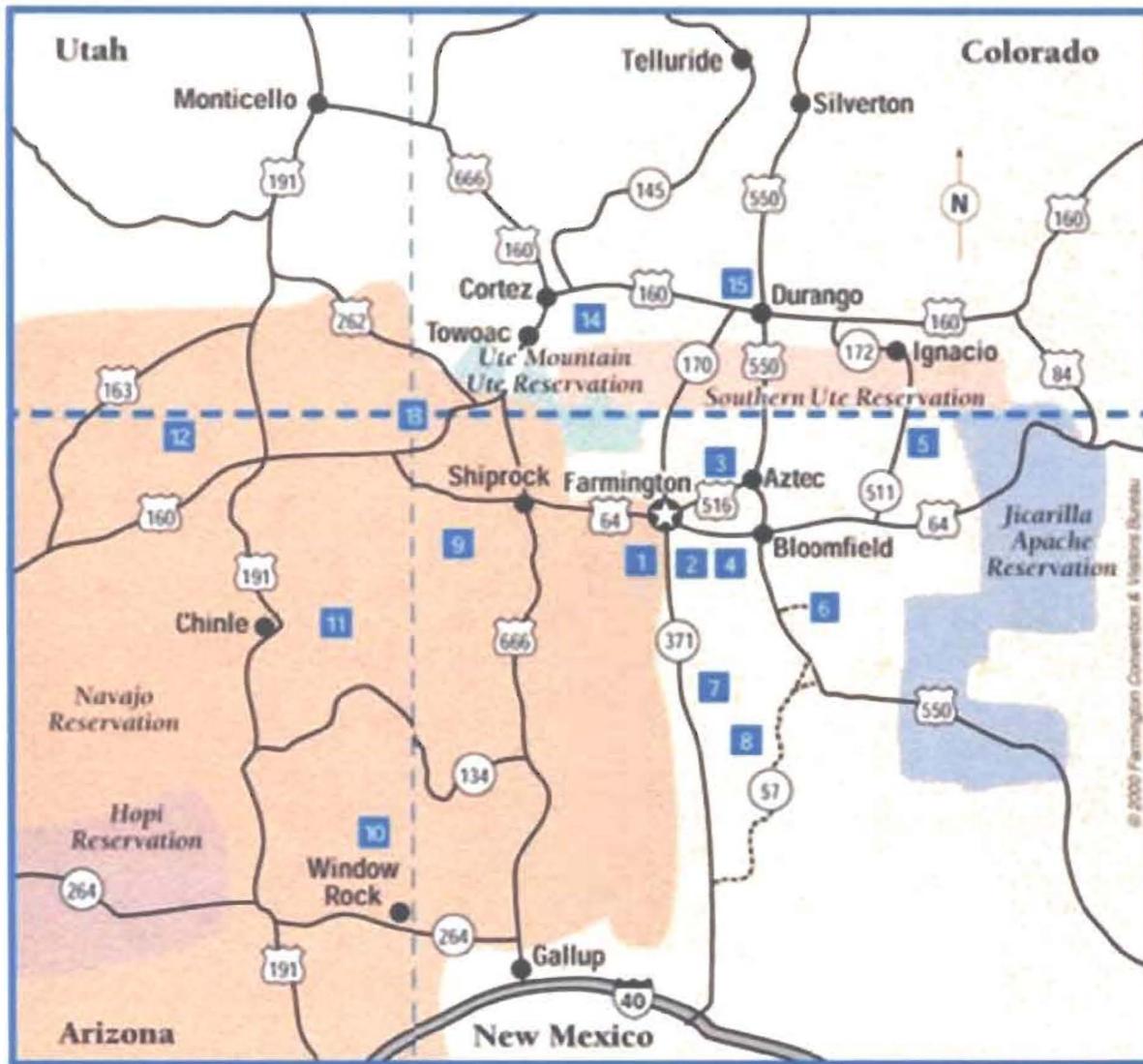
▼ city of farmington map legend

- A Gateway Park Museum & Visitors Center
- B Airport
- C Municipal Complex
- D Civic Center
- E Medical Center
- F San Juan College
- G Animas Valley Mall
-  Lodging
-  Shopping

DISTANCES TO FARMINGTON

| | | | |
|--------------------|--------|--------------------|--------|
| Albuquerque, NM | 182 mi | Lake Powell, UT | 266 mi |
| Denver, CO | 377 mi | Salt Lake City, UT | 422 mi |
| Flagstaff, AZ | 316 mi | Santa Fe, NM | 199 mi |
| Grand Canyon, AZ | 366 mi | Taos, NM | 214 mi |
| Grand Junction, CO | 222 mi | | |

Four Corners Area Map



▲ four corners area map legend

- | | |
|--|---|
| 1 Farmington | 8 Chaco Culture National Historical Park |
| 2 McGee Park & Coliseum SunRay Park & Casino | 9 Shiprock Pinnacle |
| 3 Aztec Ruins National Monument | 10 Window Rock Navajo Tribal Park |
| 4 Salmon Ruins & San Juan Archaeological Center | 11 Canyon de Chelly National Monument |
| 5 Navajo Lake State Park | 12 Monument Valley |
| 6 Angel Peak Recreation Area | 13 Four Corners Monument |
| 7 Bisti/De-Na-Zin Wilderness | 14 Mesa Verde National Park |
| | 15 Durango & Silverton Narrow Gauge Railroad |



FINANCIAL SECTION

Independent Auditor's Report

City of Farmington
Farmington, New Mexico
Honorable Mayor and City Council
and
Mr. Domingo P. Martinez, CGFM
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmington, New Mexico (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental, enterprise, and internal service funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, enterprise, and internal service fund of the City, as of June 30, 2006, and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the major debt service fund, nonmajor governmental funds and business-type funds 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 November 3, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 14 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 basic financial statements, the combining and individual fund financial statements, and budgetary comparisons. 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, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "other information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the accompanying introductory section and statistical section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subject to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, sweeping initial "D".

Farmington, New Mexico
November 3, 2006

Management Discussion and Analysis

**Management
Discussion and
Analysis**

Management's Discussion and Analysis

As management of the City of Farmington, we offer readers of the City of Farmington's financial statements this narrative overview and analysis of the financial activities of the City of Farmington for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which starts on page i of this report.

Financial Highlights

- The assets of the City of Farmington exceeded its liabilities at the close of FY 2006 by \$363,649,522 (net assets). Of this amount, \$54,849,583 (unrestricted net assets) may be used to meet the City's ongoing obligations.
- As of June 30, 2006, the City of Farmington's governmental funds reported combined ending fund balances of \$29,133,425, a decrease of \$28,772 or 0.1% in comparison with the prior year. A total of \$24,559,417 (unreserved fund balance) is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$14,594,072, or 32.2 % of the total general fund expenditures.
- The City's total net debt decreased by \$5,830,000 or 10.5% during the current fiscal year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Farmington's basic financial statements. The City of Farmington's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. *The government-wide financial statements* are designed to provide readers with a broad overview of the City of Farmington's financial condition, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Farmington's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Farmington is improving or deteriorating.

The *statement of activities* presents information showing how the City of Farmington's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change

occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave, etc).

Both government-wide financial statements distinguish functions of the City of Farmington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Farmington include general government, police, fire, parks, recreation, cultural affairs, community development, highways, and streets. The business-type activities of the City of Farmington include electric, water, wastewater, sanitation, golf, and airport operations. The government-wide financial statements can be found on pages 15-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Farmington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Farmington can be divided into two categories: (1) governmental funds and (2) proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Farmington maintains nineteen (19) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, both of which are considered to be major funds. Data from the other seventeen (17) governmental funds are combined into a single, aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of *combining statements* (pages 51-58).

The City of Farmington adopts an annual appropriated budget for each of its funds. Budgetary comparative statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary funds. The City of Farmington maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Farmington uses enterprise funds to account for its electric, water, wastewater, sanitation, golf, and airport operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Farmington's various functions. The City of Farmington uses an internal service fund to account for its self-funded health insurance operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, wastewater, sanitation, golf, and airport operations and are found on pages 81-86 of this report. Fund data for the internal service fund is provided on pages 78-80 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-47 of this report.

Government-wide Financial Analysis

As noted earlier, over time net assets may serve as a useful indicator of a government's financial position. In the case of the City of Farmington, assets exceeded liabilities by \$363,649,522 at the close of the most recent fiscal year.

The largest portion of the City of Farmington's net assets (83%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Farmington uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Farmington's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Farmington's Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| | FY 2006 | FY 2005 | FY 2006 | FY 2005 | FY 2006 | FY 2005 |
| Current and other assets | \$ 34,251,005 | \$ 37,140,194 | \$ 57,349,164 | \$ 44,395,940 | \$ 91,600,169 | \$ 81,536,134 |
| Capital assets | 87,133,682 | 80,217,153 | 279,351,393 | 272,208,948 | 366,485,075 | 352,426,101 |
| Total assets | 121,384,687 | 117,357,347 | 336,700,557 | 316,604,888 | 458,085,244 | 433,962,235 |
| Long-term liabilities outstanding | 14,156,962 | 15,207,163 | 52,696,330 | 57,709,602 | 66,853,292 | 72,916,765 |
| Other liabilities | 4,109,577 | 7,220,669 | 23,472,853 | 24,405,325 | 27,582,430 | 31,625,994 |
| Total liabilities | 18,266,539 | 22,427,832 | 76,169,183 | 82,114,927 | 94,435,722 | 104,542,759 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 74,339,304 | 66,265,472 | 227,625,271 | 215,390,130 | 301,964,575 | 281,655,602 |
| Restricted | 4,219,427 | 3,514,726 | 2,615,937 | 2,564,255 | 6,835,364 | 6,078,981 |
| Unrestricted | 24,559,417 | 25,149,317 | 30,290,166 | 16,535,576 | 54,849,583 | 41,684,893 |
| Total net assets | <u>\$ 103,118,148</u> | <u>\$ 94,929,515</u> | <u>\$ 260,531,374</u> | <u>\$ 234,489,961</u> | <u>\$ 363,649,522</u> | <u>\$ 329,419,476</u> |

Another portion of the City of Farmington's net assets (1.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$54,849,583) may be used to meet the City's ongoing obligations.

At the end of the current fiscal year, the City of Farmington has achieved positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City of Farmington's net assets increased \$34,230,046 during the current fiscal year. Almost all of this increase represents the degree to which increases in ongoing revenues have exceeded similar increases in ongoing expenses, most attributable to the utility systems.

Governmental activities. Governmental activities increased the City of Farmington's net assets by \$8,188,633. Key elements of the change in net assets are as follows:

City of Farmington's Changes in Net Assets

| | Governmental | | Business-type | | Total | |
|---|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Activities | | Activities | | | |
| | FY 2006 | FY 2005 | FY 2006 | FY 2005 | FY 2006 | FY 2005 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 6,224,584 | \$ 5,838,533 | \$ 108,470,937 | \$ 108,623,372 | \$ 114,695,521 | \$ 114,461,905 |
| Operating grants and Contributions | 2,929,307 | 2,238,291 | 927,492 | 880,654 | 3,856,799 | 3,118,945 |
| Capital grants and Contributions | - | - | 794,531 | 625,693 | 794,531 | 625,693 |
| General revenues: | | | | | | |
| Property taxes | 1,121,723 | 1,043,064 | - | - | 1,121,723 | 1,043,064 |
| GRT taxes | 49,274,220 | 43,134,352 | - | - | 49,274,220 | 43,134,352 |
| Other taxes | 3,536,122 | 2,594,484 | - | - | 3,536,122 | 2,594,484 |
| Other | 3,855,564 | 3,979,128 | 1,454,975 | 790,027 | 5,310,539 | 4,769,155 |
| Total revenues | 66,941,520 | 58,827,852 | 111,647,935 | 110,919,746 | 178,589,455 | 169,747,598 |
| Expenses: | | | | | | |
| General Government | 21,649,221 | 21,153,411 | - | - | 21,649,221 | 21,153,411 |
| Police | 12,356,592 | 11,351,590 | - | - | 12,356,592 | 11,351,590 |
| Fire | 6,466,886 | 5,470,572 | - | - | 6,466,886 | 5,470,572 |
| Parks, rec & cultural affairs | 11,105,380 | 9,497,875 | - | - | 11,105,380 | 9,497,875 |
| Community development | 8,511,853 | 7,481,297 | - | - | 8,511,853 | 7,481,297 |
| Electric | - | - | 65,152,992 | 72,914,727 | 65,152,992 | 72,914,727 |
| Water | - | - | 6,992,577 | 6,944,219 | 6,992,577 | 6,944,219 |
| Wastewater | - | - | 4,690,385 | 4,983,626 | 4,690,385 | 4,983,626 |
| Sanitation | - | - | 3,815,728 | 3,625,722 | 3,815,728 | 3,625,722 |
| Golf | - | - | 1,217,011 | 1,209,293 | 1,217,011 | 1,209,293 |
| Airport | - | - | 1,812,263 | 1,871,508 | 1,812,263 | 1,871,508 |
| Other | 588,521 | 421,480 | - | - | 588,521 | 421,480 |
| Total expenses | 60,678,453 | 55,376,225 | 83,680,956 | 91,549,095 | 144,359,409 | 146,925,320 |
| Increase in net assets before transfers | 6,263,067 | 3,451,627 | 27,966,979 | 19,370,651 | 34,230,046 | 22,822,278 |
| Transfers | 1,925,566 | 1,754,818 | (1,925,566) | (1,754,818) | - | - |
| Increase in net assets | 8,188,633 | 5,206,445 | 26,041,413 | 17,615,833 | 34,230,046 | 22,822,278 |
| Net assets - 7/01/05 | 94,929,515 | 89,723,070 | 234,489,961 | 216,874,128 | 329,419,476 | 306,597,198 |
| Net assets - 6/30/06 | \$ 103,118,148 | \$ 94,929,515 | \$ 260,531,374 | \$ 234,489,961 | \$ 363,649,522 | \$ 329,419,476 |

Property taxes increased by \$78,659 or 7.5% during the year. This increase is attributable to increasing property values and continued expansion in community development.

Operating grants and contributions increased \$691,016 or 30.9% during the year. This is primarily due to increases in police, CDBG, and library grant funding.

PILT transfers decreased \$17,300 or 0.8% over the prior year due to decreased utility revenue.

Business-type activities. Business-type activities increased the City of Farmington's net assets by \$26,041,413, accounting for 76.1% of the total growth in the government's net assets. Key financial elements of the past fiscal year are as follows:

- Operating expenses are 75.3% of operating revenues, resulting in \$26,774,219 in operating income.
- Total electric revenue was down \$815,728 or 0.9%. Electric sales were down \$1.15 million, but increased investment earnings offset half of this. Surplus energy sales decreased approximately \$4.7 million, but increased industrial electric sales of \$2.1 million combined with an increase in the power cost adjustment of \$1.67 million mitigated this decline in revenue. Commercial sales also decreased \$974,000, but wholesale revenues increased \$600,000 .
- Total water revenue increased \$686,767 or 9.3% from increased water sales to residential and commercial customers.
- Total wastewater revenue increased by \$398,007 or 8.2% during the year due to higher sales to commercial customers and to greater receipts from the environmental gross receipts tax.
- Total sanitation revenue increased \$203,460 or 5.5% due to higher demand for sanitation services.
- Investment earnings for business-type activities were \$1,454,975, an 84.2% increase due to rising interest rates and increasing cash reserves.

Financial Analysis of the Government's Funds

As noted earlier, the City of Farmington uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements.

Governmental funds. The focus of the City of Farmington's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Farmington's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2006, the City of Farmington's governmental funds reported combined ending fund balances of \$29,133,425 a decrease of \$28,772 in comparison with the prior year. Approximately 84.8% of this total amount or \$24,707,640 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for debt service (\$287,735), prepaid items (\$206,358), and statutory reserves (\$3,931,692).

The general fund is the chief operating fund of the City of Farmington. At the end of the current fiscal year, unreserved fund balance of the general fund was \$14,594,072, while total fund balance reached \$18,732,122. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32.2% of total general fund expenditures, while total fund balance represents 41.4% of that same amount. The fund balance of the City of Farmington's general fund increased \$2,269,090 or 13.8% during the current fiscal year. The total increase in general fund revenue was \$6,761,241 due mostly to a 15.9% increase in gross receipts tax. Total general fund expenditures increased \$6,430,869 or 16.6% over the prior year. Key elements of this increase were the purchase of the Animas Credit Union building (\$792,000), increased costs of community service contributions (\$248,501) mainly due to a pass-through grant for Presbyterian Medical Services, increased vehicle purchases (\$704,072), increased costs of the Red Apple bus transit service (\$242,345), increased wages/benefits for police (\$920,153) and fire (\$482,909), and increased police equipment purchases (\$468,022).

Other key governmental-type funds include the streets fund and parks & public works fund. Both of these funds are funded primarily with gross receipt tax revenue earmarked specifically for streets, parks, and public works activities. The streets fund is generally budgeted for full expenditure each fiscal year, but expenditures decreased by \$144,648 or 4% in FY 2006 due to a decrease in streets projects. The parks & public works fund also is generally budgeted for full expenditure each fiscal year. However, the fund balance increased by \$79,290 or 2.5% due to higher than expected GRT revenue.

Proprietary funds. The City of Farmington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$22,031,374 in the electric utility system; \$2,296,448 in the water utility system; \$5,074,562 in the wastewater utility system; and \$887,782 in combined net assets for the other propriety funds (sanitation, golf course, and airport). The total growth in net assets was \$25,223,587 in the electric fund, \$716,190 in the water fund, \$391,362 in the wastewater fund, and \$(289,726) in the other funds combined. The decrease in the other proprietary funds was due primarily to continuing reductions in federal funding for the airport. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Farmington's business-type activities.

Budgetary Highlights

FY 2006 was a very good year for revenues in that gross receipts tax proceeds increased by \$5,174,337 or 15.9% from the prior year on a GAAP basis. This was an even steeper growth curve than FY 2005, when GRT increased 13.3% over FY 2004. After the 4.6% decline in FY 2003, this was a welcome continuation of the economic recovery and significantly better than the twenty-five year average growth trend of 9%. In the general fund, which received approximately 77.6% of revenue from the

gross receipts tax (GRT), FY 2006 GRT revenue was \$37,800,669 or 15.9% over FY 2005 actual receipts. This compares very favorably with FY 2005, which was 9.9% over budget.

On the expenditure side, the original general fund budget of \$46,637,684 was increased by almost \$650 thousand during FY 2006 due to the continuing increase in GRT revenue. As the positive revenue trend continued in FY 2006, selected expenditures postponed in prior years were approved. This resulted in a 16.5% increase in actual FY 2006 expenditures over the prior year. Considering the postponement of expenditures from prior years, the growth in cash reserves available for expenditure, and continued expansion in demand for services, FY 2006 expenditure levels could be considered fiscally conservative.

During the year, seven separate revisions were made to the original FY 2006 budget. These adjustments were not large on a percentage basis. Budget revisions in the general fund were typical with the difference between the original and final budget for revenue and expenditures amounting to 1.9% and 4.2% respectively. In the governmental funds, the largest increase was in the GRT-parks and public works fund. This was due to increased GRT proceeds that were designated for the new Southside Community Center project and the Noise Reduction Wall on Pinon Hills Blvd. Several enterprise funds had significant increases from original to final budget due to the need to increase capital spending. The capital outlay budget in the electric utility was increased by 16.4% to meet additional service requests. When some requests failed to materialize and the budget increase not utilized, the revenue and expense budgets were left unchanged resulting in under-budget actuals. Only in the water fund was increased budget authority actually utilized, with expenses amounting to 19.6% of the additional authorization.

In FY 2006 several budget issues were addressed. The first was the ISO rating for the fire department. To maintain the current favorable rating the department was required to upgrade five fire trucks and construct a new fire station. To accomplish these improvements, bonds of \$5.7 million were issued in April of 2005, with the construction of the new fire station commencing in July 2005. Completion is scheduled for August of 2006. To adequately staff the new station an additional twelve (12) fire positions are required. These 12 positions were budgeted in increments during FY 2006 at an annualized cost of \$575,000. Additional public safety concerns were addressed with the addition to the budget of nine (9) police positions in FY 2006 at an annualized cost of \$460,000. These additional public safety positions will have a definite budget impact on future budgets. Due to growth in the northwest sector of the City, an additional fire station may be constructed in the next few years. On another community issue, progress was also made on the new \$2.0 million Southside Community Center by gathering input from the community concerning their opinion on the types of functions this facility should fulfill. Subsequently, conceptual design work on the new center commenced and is proceeding forward.

During FY 2006, the City had the opportunity to acquire additional office space across the street from City Hall. A former savings and loan building went into foreclosure and the City submitted the winning bid at the foreclosure sale. For \$792,000, the City received much-needed space in a prime location. Since this was a totally unforeseen expenditure, a budget revision was required with the cash purchase funded by royalties from a new oil and gas lease on City property. Additional funding will be required in FY 2007 to remodel various offices affected by the move.

Two new programs also had budgetary impacts during the fiscal year. The City is in the early operational stage of developing a mass transit system. The results from prior years have been very favorable in terms of ridership, but now the original fleet of vans need replacing and additional vans are required for expanded routes. Although federal funds are available, the City is carefully monitoring the financial resources required to maintain and improve the transit system. During FY 2006 the City spent \$280,000, at approximately \$39,000 apiece, to acquire seven (7) additional vans for the Red Apple Transit system. Future budgets will be responsible for maintaining and replacing these vans as they require maintenance and wear out. The second issue addressed in FY 2006 related to the City's utility system. FY 2006 was the first year since 1991 that a water/wastewater rate increase has been considered. Due to requests for extension of existing lines and the need to replace aging infrastructure, a consultant was hired to evaluate the current system and propose various options for generating sufficient revenue to address these concerns. The final result of this effort will not be known until FY 2007 when various rate options are discussed by the City Council. When new rates are implemented, a schedule for capital improvements will be developed to prioritize specific projects for construction.

The most favorable budget highlight for the year was the budget to actual comparison for the general fund at the end of the year. Actual revenue for the year exceeded the budget by \$792,878 or 1.7% and actual expenditures were under budget by \$2,001,078 or 4.2%. These results left the cash balance in the general fund at \$13.2 million which approaches the historical high of \$13.6 million. This balance generates additional flexibility for the FY 2007 budget in that a significant "cushion" exists which allows for additional spending without creating negative financial consequences. The preliminary FY 2007 budget anticipates spending down over \$3.3 million of this accumulated reserve, mostly for the Southside Community Center.

Capital Asset and Debt Administration

Capital Assets. The City of Farmington's investment in capital assets for governmental and business type activities as of June 30, 2006, amounts to \$366,485,075 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, utility systems, machinery and equipment, park facilities, roads, highways, and bridges. The business-type capital assets accounted for \$279,351,393 or 76.2% of the total City of Farmington capital assets. The total increase in the business-type investment in capital assets for the

current fiscal year was \$7,142,445 or 2.6%. The governmental activities investment in capital assets accounted for \$87,133,682 or 23.8% of all capital assets owned by the City. The total increase in governmental activities investment in capital assets for the current year was \$6,916,529 or 8.6%.

Major capital asset investment activities during the current fiscal year included the following:

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|--------------------------------|----------------------|---------------------------------|-----------------------|-----------------------|-----------------------|
| | FY 2006 | FY 2005 | FY 2006 | FY 2005 | FY 2006 | FY 2005 |
| Land | \$ 25,780,126 | \$ 25,436,011 | \$ 5,905,282 | \$ 3,791,140 | \$ 31,685,408 | \$ 29,227,151 |
| Buildings and system Improvements | 25,276,672 | 25,129,700 | 63,768,452 | 43,153,855 | 89,045,124 | 68,283,555 |
| Machinery & equipment | 6,360,550 | 6,563,258 | 54,662,046 | 52,434,587 | 61,022,596 | 58,997,845 |
| Infrastructure | 7,508,552 | 7,569,915 | 125,127,246 | 96,301,144 | 132,635,798 | 103,871,059 |
| Construction in progress | 11,215,804 | 10,941,375 | - | - | 11,215,804 | 10,941,375 |
| Total | <u>\$ 87,133,682</u> | <u>\$ 80,217,153</u> | <u>\$ 279,351,393</u> | <u>\$ 272,208,948</u> | <u>\$ 366,485,075</u> | <u>\$ 352,426,101</u> |

Capital expenditures for the electric utility system will average approximately \$12,704,060 per year over the next five fiscal years. Some large projects included in the FY 2007 capital budget are the new College Substation (\$2,270,000), the West Loop Switching Station (\$2,300,000), new transmission transfer capacity lines (\$2,900,000), and miscellaneous customer projects (\$4,200,000). The City expects to fund these projects from electric customer-generated revenues.

Capital expenditures for the water utility system scheduled in the current five-year capital improvements plan principally include upgrades and replacements of existing facilities to maintain the existing system and meet future demand requirements. Capital expenditures average \$2,233,757 per year, totaling \$11,168,785 for fiscal years 2007 through 2011. Anticipated mid-year FY 2007, the City of Farmington will have the first water rate increase since 1991. Included in this rate increase is a renewal and replacement fee, plus a water rights acquisition fee to generate revenues for capital projects and ensure adequate water sources for the future. The water fund will also have an additional \$240,000 per year for five years for water projects coming from reduced payments in lieu of taxes to the general fund.

Pursuant to the Wastewater System Master Plan, in FY 2004 the City placed in service a new wastewater treatment plant that included a new activated sludge treatment process train complete with a new secondary clarifier, rehabilitation of the existing primary clarifiers, expansion of the disinfection facility (chlorine contact chamber), reconstruction and expansion of sludge drying beds, repair of one of the digesters and provision of positive control of stormwater discharges from the facility. The expansion added approximately 870,000 gallons of treatment capacity to the existing 5.8 mgd plant. A \$9,800,000 loan obtained in August 2000 from the New Mexico Environment Department (NMED) and increased to \$13,000,000 in

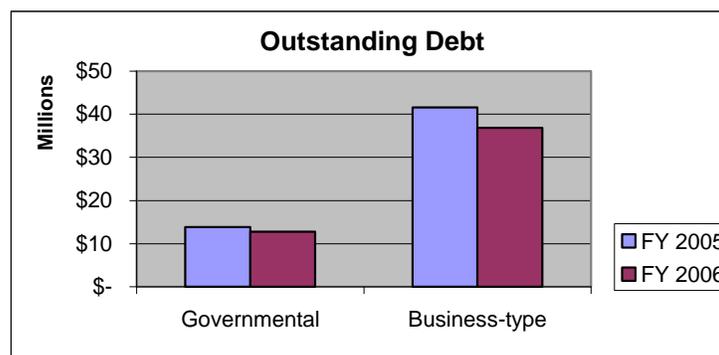
September 2002 paid for this project. As of June 30, 2006, draws on the loan were \$12,830,162 and interest on the draws during the construction period totaled \$1,346,974. The repayment phase of the loan will begin in FY 2007, with the Final Promissory Note to the NMED that will equal draws to date plus construction interest, with the first payment due July 1, 2007. The note will bear interest at 3% per annum and will be amortized over twenty years and have equal annual installments. An additional expansion of the wastewater treatment plant in FY 2009 is estimated to cost \$7 million. In FY 2007, the wastewater fund will also have a rate increase and a new renewal and replacement fee to generate additional revenues for capital projects. Additionally, \$160,000 per year for five years will be available from reduced payments in lieu of taxes to the general fund for capital projects. Additional information on the City of Farmington's capital assets can be found in Note C on pages 37-38 of this report.

Long-term debt. At the end of the current fiscal year, the City of Farmington had total bonded debt outstanding of \$49,650,000. Of this amount, \$12,800,000 constitutes special, limited obligations of the City government, payable solely from the City's existing 1.225% State-shared gross receipts tax. This tax is collected by the State and distributed monthly to the City. Per the bond ordinance, interest may be earned on cash balances held by the City until debt payments are made. The bonds are not an indebtedness of the City within any constitutional or statutory provision or limitation and are not general obligations of the City. Consequently, the registered owners cannot look to the general fund or other fund for any payment that becomes due on the bonds other than the special funds that are specifically pledged for their payment under the terms of the bond ordinance. The remainder of the City of Farmington's debt is secured solely by specified revenue sources.

City of Farmington's Outstanding Debt

Sales Tax and Revenue Bonds

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | FY 2006 | FY 2005 | FY 2006 | FY 2005 | FY 2006 | FY 2005 |
| Sales tax bonds | \$ 12,800,000 | \$ 13,860,000 | \$ - | \$ - | \$ 12,800,000 | \$ 13,860,000 |
| Revenue bonds | - | - | 36,850,000 | 41,620,000 | 36,850,000 | 41,620,000 |
| Total | \$ 12,800,000 | \$ 13,860,000 | \$ 36,850,000 | \$ 41,620,000 | \$ 49,650,000 | \$ 55,480,000 |



The City of Farmington's total net debt decreased \$5,830,000 or 10.5% during FY 2006. The wastewater utility system also has expended \$12,830,162 of the \$13,000,000 loan for its wastewater treatment plant expansion project and accrued \$1,346,974 in construction interest as discussed above under the capital assets section.

Credit ratings. Standard & Poor's Rating Group and Moody's Investors Service have assigned the most recent bond issuance the insured ratings of AAA and Aaa, respectively. The underlying ratings, however, are AA- and A1, respectively. These ratings have not changed significantly in comparison to prior ratings.

Debt limitation. Article IX, Section 13 of the State Constitution limits the powers of the City to incur general obligation debt in an aggregate amount, including existing indebtedness, not to exceed four percent of the value of the taxable property in the City as shown by the last preceding general assessments. The City may, however, contract debt in excess of such limitation for the construction or purchase of a system for supplying water or a sewer system for the City. Based on the 2005 assessed valuation of \$760,704,972, the City's general obligation debt limit is \$30,428,199. The City presently has no general obligation bonds outstanding. For more detailed information on the City's debt, see pages 40-43 in the Notes to the Financial Statements.

Requests for Information

This financial report is designed to provide a general overview of the City of Farmington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, 800 Municipal Drive, Farmington, NM 87401.

Basic Financial Statements

CITY OF FARMINGTON, NEW MEXICO

Statement of Net Assets

June 30, 2006

| | Primary Government | | |
|--|------------------------------------|-------------------------------------|----------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 21,688,852 | \$ 26,120,592 | \$ 47,809,444 |
| Receivables (net, where applicable, of allowances for uncollectibles): | 1,038,407 | 4,485,648 | 5,524,055 |
| Accrued unbilled revenues | - | 4,972,090 | 4,972,090 |
| Special assessments | 14,869 | - | 14,869 |
| Intergovernmental receivable | 11,001,045 | 64,541 | 11,065,586 |
| Inventories | 301,474 | 3,828,708 | 4,130,182 |
| Prepays | 206,358 | 200,104 | 406,462 |
| Deferred charges | - | 345,886 | 345,886 |
| Restricted assets | | | |
| Temporarily restricted: | | | |
| Cash and equivalents | - | 17,331,595 | 17,331,595 |
| Capital assets (not being depreciated): | | | |
| Land and land rights | 25,780,126 | 5,905,282 | 31,685,408 |
| Capital assets (net of accumulated depreciation): | | | |
| Buildings and system | 25,276,672 | 63,768,452 | 89,045,124 |
| Improvements other than buildings | 6,360,550 | 54,662,046 | 61,022,596 |
| Machinery and equipment | 7,508,552 | 125,127,246 | 132,635,798 |
| Infrastructure | 11,215,804 | - | 11,215,804 |
| Construction in progress | 10,991,978 | 29,888,367 | 40,880,345 |
| Total assets | 121,384,687 | 336,700,557 | 458,085,244 |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 1,773,036 | 4,732,495 | 6,505,531 |
| Wages and benefits payable | 664,108 | 216,045 | 880,153 |
| Other accrued liabilities | 29,373 | 1,080,760 | 1,110,133 |
| Accrued claims liabilities | 1,577,830 | - | 1,577,830 |
| Retainage deposits payable | 43,859 | - | 43,859 |
| Unearned revenue | - | 1,174,983 | 1,174,983 |
| Accrued interest payable | 21,371 | 1,552,912 | 1,574,283 |
| Customer deposits | - | 14,715,658 | 14,715,658 |
| Non-current liabilities: | | | |
| Due within one year | 1,189,342 | 5,444,692 | 6,634,034 |
| Due in more than one year | 12,967,620 | 47,251,638 | 60,219,258 |
| Total liabilities | 18,266,539 | 76,169,183 | 94,435,722 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 74,339,304 | 227,625,271 | 301,964,575 |
| Restricted for: | | | |
| Debt service | 206,358 | 2,615,937 | 2,822,295 |
| Statutory reserve | - | - | - |
| Unrestricted | 28,572,486 | 30,290,166 | 58,862,652 |
| Total net assets | \$ 103,118,148 | \$ 260,531,374 | \$ 363,649,522 |

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

CITY OF FARMINGTON, NEW MEXICO
Statement of Activities
For the Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense)Revenue and Changes in Net Assets | | Total |
|--------------------------------------|-----------------------|-------------------------|--|--|---|-----------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 21,649,221 | \$ 5,379,345 | \$ 1,721,631 | \$ - | \$ (14,548,245) | \$ - | \$ (14,548,245) |
| Police | 12,356,592 | 39,903 | 513,736 | - | (11,802,953) | - | (11,802,953) |
| Fire | 6,466,886 | - | 252,227 | - | (6,214,659) | - | (6,214,659) |
| Parks, recreation, cultural affairs | 11,105,380 | 703,731 | 143,793 | - | (10,257,856) | - | (10,257,856) |
| Community development | 8,511,853 | 101,605 | 297,920 | - | (8,112,328) | - | (8,112,328) |
| Interest on long-term debt | 588,521 | - | - | - | (588,521) | - | (588,521) |
| Total governmental activities | <u>60,678,453</u> | <u>6,224,584</u> | <u>2,929,307</u> | <u>-</u> | <u>(51,524,562)</u> | <u>-</u> | <u>(51,524,562)</u> |
| Business-type activities: | | | | | | | |
| Electric | 65,152,992 | 89,801,858 | 917,311 | - | - | 25,566,177 | 25,566,177 |
| Water | 6,992,577 | 7,991,740 | 10,181 | - | - | 1,009,344 | 1,009,344 |
| Wastewater | 4,690,385 | 5,071,951 | - | - | - | 381,566 | 381,566 |
| Sanitation | 3,815,728 | 3,889,876 | - | - | - | 74,148 | 74,148 |
| Golf | 1,217,011 | 1,121,313 | - | 5,500 | - | (90,198) | (90,198) |
| Airport | 1,812,263 | 594,199 | - | 789,031 | - | (429,033) | (429,033) |
| Total business-type activities | <u>83,680,956</u> | <u>108,470,937</u> | <u>927,492</u> | <u>794,531</u> | <u>-</u> | <u>26,512,004</u> | <u>26,512,004</u> |
| Total government | <u>\$ 144,359,409</u> | <u>\$ 114,695,521</u> | <u>\$ 3,856,799</u> | <u>\$ 794,531</u> | <u>(51,524,562)</u> | <u>26,512,004</u> | <u>(25,012,558)</u> |
| General revenues: | | | | | | | |
| Property taxes | | | | | 1,121,723 | - | 1,121,723 |
| Sales taxes | | | | | 49,274,220 | - | 49,274,220 |
| Franchise taxes | | | | | 1,594,098 | - | 1,594,098 |
| Gasoline taxes | | | | | 931,574 | - | 931,574 |
| Cigarette taxes | | | | | 42,316 | - | 42,316 |
| Lodger's taxes | | | | | 968,134 | - | 968,134 |
| License / permits | | | | | 951,280 | - | 951,280 |
| Fines | | | | | 1,133,053 | - | 1,133,053 |
| Special Assesments | | | | | 36,370 | - | 36,370 |
| Miscellaneous | | | | | 876,250 | - | 876,250 |
| Unrestricted investment earnings | | | | | 858,611 | 1,454,975 | 2,313,586 |
| Transfers | | | | | 1,925,566 | (1,925,566) | - |
| Total general revenues and transfers | | | | | <u>59,713,195</u> | <u>(470,591)</u> | <u>59,242,604</u> |
| Change in net assets | | | | | 8,188,633 | 26,041,413 | 34,230,046 |
| Net assets - beginning | | | | | 94,929,515 | 234,489,961 | 329,419,476 |
| Net assets - ending | | | | | <u>\$ 103,118,148</u> | <u>\$ 260,531,374</u> | <u>\$ 363,649,522</u> |

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

CITY OF FARMINGTON, NEW MEXICO

**Balance Sheet
Governmental Funds
June 30, 2006**

| | <u>General</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-------------------------|---|---|
| ASSETS: | | | | |
| Pooled cash and investments | \$ 12,925,550 | \$ 33,153 | \$ 8,728,642 | \$ 21,687,345 |
| Receivables (net, where applicable, of allowances for uncollectibles): | 273,523 | 254,582 | 36,414 | 564,519 |
| Special assessments | 14,869 | - | - | 14,869 |
| Due from other funds | 300,000 | - | - | 300,000 |
| Inventories, at cost | 225,462 | - | 76,012 | 301,474 |
| Prepaid items | 206,358 | - | - | 206,358 |
| Intergovernmental | 8,540,884 | - | 2,460,161 | 11,001,045 |
| Total assets | <u>22,486,646</u> | <u>287,735</u> | <u>11,301,229</u> | <u>34,075,610</u> |
| LIABILITIES AND FUND BALANCES: | | | | |
| Liabilities: | | | | |
| Accounts payable | 692,873 | - | 1,080,163 | 1,773,036 |
| Wages and benefits payable | 651,596 | - | 12,512 | 664,108 |
| Other accrued expenditures | 29,373 | - | - | 29,373 |
| Accrued claims payable | 1,075,403 | - | - | 1,075,403 |
| Retainage/deposits payable | 43,859 | - | - | 43,859 |
| Deferred revenue | 1,261,420 | - | 94,986 | 1,356,406 |
| Unearned revenue | - | - | - | - |
| Total liabilities | <u>3,754,524</u> | <u>-</u> | <u>1,187,661</u> | <u>4,942,185</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Debt service | - | 287,735 | - | 287,735 |
| Prepays | 206,358 | - | - | 206,358 |
| Subsequent year's statutory reserve | 3,931,692 | - | - | 3,931,692 |
| Unreserved, reported in: | | | | |
| Designated for debt service | 2,000,000 | - | - | 2,000,000 |
| General fund | 12,594,072 | - | - | 12,594,072 |
| Special revenue funds | - | - | 9,199,148 | 9,199,148 |
| Capital project funds | - | - | 914,420 | 914,420 |
| Total fund balances | <u>18,732,122</u> | <u>287,735</u> | <u>10,113,568</u> | <u>29,133,425</u> |
| Total liabilities and fund balances | <u>\$ 22,486,646</u> | <u>\$ 287,735</u> | <u>\$ 11,301,229</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|-----------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 87,133,682 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 1,356,406 |
| Internal service funds are used by management to charge the costs of healthcare to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | (327,032) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds | <u>(14,178,333)</u> |
| Net assets of governmental activities | <u>\$ 103,118,148</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|----------------|-------------------------|---|---|
| REVENUES: | | | | |
| Taxes: | | | | |
| Property | \$ 1,121,723 | \$ - | \$ - | \$ 1,121,723 |
| Gross receipts | 37,800,669 | 1,530,042 | 9,943,509 | 49,274,220 |
| Franchise | 1,594,098 | - | - | 1,594,098 |
| Gasoline | - | - | 931,574 | 931,574 |
| Cigarette | - | - | 42,316 | 42,316 |
| Lodger's | - | - | 968,134 | 968,134 |
| Licenses and permits | 848,354 | - | 102,926 | 951,280 |
| Intergovernmental | 1,466,451 | - | 1,462,856 | 2,929,307 |
| Charges for services | 1,774,917 | - | 65,419 | 1,840,336 |
| Fines | 984,510 | - | 148,543 | 1,133,053 |
| Special assessments | 36,370 | - | - | 36,370 |
| Investment earnings | 493,552 | 22,381 | 342,678 | 858,611 |
| Miscellaneous | 414,381 | - | 461,869 | 876,250 |
| Total revenues | 46,535,025 | 1,552,423 | 14,469,824 | 62,557,272 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 18,478,746 | - | - | 18,478,746 |
| Police | 11,980,875 | - | 625,826 | 12,606,701 |
| Fire | 5,707,617 | - | 164,733 | 5,872,350 |
| Parks, recreation and cultural affairs | 6,838,867 | - | 4,289,745 | 11,128,612 |
| Community development | 1,819,675 | - | 5,362,393 | 7,182,068 |
| Debt service: | | | | |
| Principal | - | 1,060,000 | - | 1,060,000 |
| Interest | - | 588,521 | - | 588,521 |
| Capital outlay: | | | | |
| Highways and streets | 460,101 | - | 2,471,260 | 2,931,361 |
| Public safety | - | - | 3,913,252 | 3,913,252 |
| Total expenditures | 45,285,881 | 1,648,521 | 16,827,209 | 63,761,611 |
| Excess (deficiency) of revenues over (under) expenditures | 1,249,144 | (96,098) | (2,357,385) | (1,204,339) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 2,121,604 | 100,000 | 778,500 | 3,000,104 |
| Transfers out | (1,101,658) | - | (722,879) | (1,824,537) |
| Total other financing sources (uses) | 1,019,946 | 100,000 | 55,621 | 1,175,567 |
| Net change in fund balances | 2,269,090 | 3,902 | (2,301,764) | (28,772) |
| Fund balances-beginning | 16,463,032 | 283,833 | 12,415,332 | 29,162,197 |
| Fund balances- ending | \$ 18,732,122 | \$ 287,735 | \$ 10,113,568 | \$ 29,133,425 |

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

CITY OF FARMINGTON, NEW MEXICO
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities (page 16) are different because:

| | |
|--|---------------------|
| Net change in fund balances-total governmental funds (page 18) | \$ (28,772) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 6,916,529 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 420,478 |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items. | 1,057,786 |
| The net revenue/expense of certain activities of internal service funds is reported with governmental activities. | <u>(177,388)</u> |
| Change in net assets of governmental activities (page 16) | <u>\$ 8,188,633</u> |

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

CITY OF FARMINGTON, NEW MEXICO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|----------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 1,046,877 | \$ 1,046,877 | \$ 1,121,723 | \$ 74,846 |
| Gross receipts tax | 32,880,340 | 37,213,455 | 37,800,669 | 587,214 |
| Franchise taxes | 635,000 | 1,510,000 | 1,594,098 | 84,098 |
| Licenses and permits | 713,320 | 713,320 | 848,354 | 135,034 |
| Intergovernmental | 1,218,841 | 1,713,841 | 1,466,451 | (247,390) |
| Charges for services | 4,663,779 | 1,573,045 | 1,774,917 | 201,872 |
| Fines | 1,175,500 | 1,175,500 | 984,510 | (190,990) |
| Special assessments | 44,100 | 44,100 | 36,370 | (7,730) |
| Investment earnings | 266,634 | 391,634 | 493,552 | 101,918 |
| Miscellaneous | 360,375 | 360,375 | 414,381 | 54,006 |
| Total revenues | <u>43,004,766</u> | <u>45,742,147</u> | <u>46,535,025</u> | <u>792,878</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Council | 378,521 | 244,613 | 196,834 | 47,779 |
| Municipal court | 1,431,611 | 1,425,311 | 1,349,434 | 75,877 |
| Administrative | 8,703,289 | 9,158,723 | 9,052,630 | 106,093 |
| Legal | 1,014,511 | 916,724 | 1,205,457 | (288,733) |
| Administrative services | 1,927,857 | 1,088,578 | 971,946 | 116,632 |
| General services | 4,921,373 | 6,071,755 | 5,702,445 | 369,310 |
| Total general government | <u>18,377,162</u> | <u>18,905,704</u> | <u>18,478,746</u> | <u>426,958</u> |
| Public safety: | | | | |
| Police | 11,534,102 | 12,497,410 | 11,980,875 | 516,535 |
| Fire | 5,968,730 | 5,939,054 | 5,707,617 | 231,437 |
| Total public safety | <u>17,502,832</u> | <u>18,436,464</u> | <u>17,688,492</u> | <u>747,972</u> |
| Community development: | | | | |
| Streets | 496,236 | 502,014 | 460,101 | 41,913 |
| Other-unclassified | 3,308,443 | 2,421,910 | 1,819,675 | 602,235 |
| Total community development | <u>3,804,679</u> | <u>2,923,924</u> | <u>2,279,776</u> | <u>644,148</u> |
| Parks, recreation and cultural affairs | 6,953,011 | 7,020,867 | 6,838,867 | 182,000 |
| Total expenditures | <u>46,637,684</u> | <u>47,286,959</u> | <u>45,285,881</u> | <u>2,001,078</u> |
| Excess of revenues over expenditures | (3,632,918) | (1,544,812) | 1,249,144 | 2,793,956 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 2,190,884 | 2,190,884 | 2,121,604 | (69,280) |
| Transfers out | (154,858) | (1,104,858) | (1,101,658) | 3,200 |
| Total other financing sources and uses | <u>2,036,026</u> | <u>1,086,026</u> | <u>1,019,946</u> | <u>(66,080)</u> |
| Net change in fund balances | (1,596,892) | (458,786) | 2,269,090 | 2,727,876 |
| Fund balances-beginning (restated) | 16,463,032 | 16,463,032 | 16,463,032 | - |
| Fund balances-ending | <u>\$ 14,866,140</u> | <u>\$ 16,004,246</u> | <u>\$ 18,732,122</u> | <u>\$ 2,727,876</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Statement of Net Assets
Proprietary Funds
June 30, 2006

| ASSETS | Business-type Activities-Enterprise Funds | | | | | | | Governmental Activities Internal Service Fund |
|---|---|----------------------|-----------------------|-------------------|---------------------|---------------------|-----------------------|---|
| | Electric Utility | Water Utility | Wastewater Utility | Sanitation | Golf Courses | Airport | Totals | |
| Current assets: | | | | | | | | |
| Pooled cash and investments | \$ 17,725,654 | \$ 1,469,073 | \$ 5,922,832 | \$ 409,463 | \$ 302,510 | \$ 291,060 | \$ 26,120,592 | \$ 1,507 |
| Accounts receivable (net of allowance for doubtful accounts) | 3,234,613 | 614,419 | 432,856 | 198,979 | 4,634 | 147 | 4,485,648 | 473,888 |
| Accrued unbilled revenues | 4,333,270 | 349,600 | 141,762 | 147,458 | - | - | 4,972,090 | - |
| Intergovernmental receivable | - | - | - | - | - | 64,541 | 64,541 | - |
| Inventories | 3,611,978 | 189,685 | 27,045 | - | - | - | 3,828,708 | - |
| Prepaid items | 127,577 | 21,223 | 26,160 | - | 6,179 | 18,965 | 200,104 | - |
| Restricted cash, cash equivalents and investments | 16,598,069 | 659,295 | 74,231 | - | - | - | 17,331,595 | - |
| Total current assets | <u>45,631,161</u> | <u>3,303,295</u> | <u>6,624,886</u> | <u>755,900</u> | <u>313,323</u> | <u>374,713</u> | <u>57,003,278</u> | <u>475,395</u> |
| Noncurrent assets: | | | | | | | | |
| Deferred charges | 276,423 | 59,648 | 9,815 | - | - | - | 345,886 | - |
| Capital assets: | | | | | | | | |
| Land and land rights | 3,543,906 | 1,614,275 | 479,388 | 23,341 | 100,000 | 784,968 | 6,545,878 | - |
| Building and system | 55,440,953 | 13,990,025 | 22,376,821 | 80,640 | 781,367 | 1,962,488 | 94,632,294 | - |
| Improvements other than buildings | 42,956,875 | 27,799,780 | 10,774,194 | 14,839 | 2,473,353 | 17,066,159 | 101,085,200 | - |
| Machinery and equipment | 209,285,182 | 6,923,003 | 2,051,207 | 101,099 | 1,023,026 | 1,247,845 | 220,631,362 | - |
| Construction in progress | 28,660,632 | 110,001 | 146,137 | - | - | 971,597 | 29,888,367 | - |
| Less accumulated depreciation | (120,444,725) | (24,329,549) | (11,595,450) | (156,645) | (1,563,732) | (15,341,607) | (173,431,708) | - |
| Total capital assets (net of accumulated depreciation) | <u>219,442,823</u> | <u>26,107,535</u> | <u>24,232,297</u> | <u>63,274</u> | <u>2,814,014</u> | <u>6,691,450</u> | <u>279,351,393</u> | <u>-</u> |
| Total noncurrent assets | <u>219,719,246</u> | <u>26,167,183</u> | <u>24,242,112</u> | <u>63,274</u> | <u>2,814,014</u> | <u>6,691,450</u> | <u>279,697,279</u> | <u>-</u> |
| Total assets | <u>\$ 265,350,407</u> | <u>\$ 29,470,478</u> | <u>\$ 30,866,998</u> | <u>\$ 819,174</u> | <u>\$ 3,127,337</u> | <u>\$ 7,066,163</u> | <u>\$ 336,700,557</u> | <u>\$ 475,395</u> |

CITY OF FARMINGTON, NEW MEXICO
Statement of Net Assets
Proprietary Funds
June 30, 2006

| | Business-type Activities-Enterprise Funds | | | | | | | Governmental Activities Internal Service Fund |
|---|--|--------------------------|-------------------------------|-------------------|-------------------------|---------------------|-----------------------|--|
| | Electric Utility | Water Utility | Wastewater Utility | Sanitation | Golf Courses | Airport | Totals | |
| LIABILITIES | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Current liabilities payable from unrestricted assets: | | | | | | | | |
| Accounts payable | \$ 4,109,482 | \$ 264,327 | \$ 108,268 | \$ 438,759 | \$ 27,499 | \$ 205 | \$ 4,948,540 | \$ - |
| Compensated absences | 399,960 | 5,298 | 5,298 | - | 13,777 | 15,953 | 440,286 | - |
| Due to other funds | - | - | - | - | - | - | - | 300,000 |
| Other accrued expenses | 967,308 | 84,279 | 3,778 | - | 18,227 | 7,168 | 1,080,760 | - |
| Accrued claims payable | - | - | - | - | - | - | - | 502,427 |
| Deferred revenue | 1,172,947 | 2,036 | - | - | - | - | 1,174,983 | - |
| Capital lease payable - current | - | - | - | - | 99,406 | - | 99,406 | - |
| Accrued interest payable | 164,580 | 35,514 | 1,352,818 | - | - | - | 1,552,912 | - |
| Revenue bonds payable | 3,919,941 | 845,872 | 139,187 | - | - | - | 4,905,000 | - |
| Total current liabilities payable from unrestricted assets | <u>10,734,218</u> | <u>1,237,326</u> | <u>1,609,349</u> | <u>438,759</u> | <u>158,909</u> | <u>23,326</u> | <u>14,201,887</u> | <u>802,427</u> |
| Current liabilities payable from restricted assets | <u>14,507,484</u> | <u>208,174</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,715,658</u> | <u>-</u> |
| Total current liabilities | <u>25,241,702</u> | <u>1,445,500</u> | <u>1,609,349</u> | <u>438,759</u> | <u>158,909</u> | <u>23,326</u> | <u>28,917,545</u> | <u>802,427</u> |
| Noncurrent liabilities: | | | | | | | | |
| (net of unamortized discounts) | | | | | | | | |
| Revenue bonds payable (net of unamortized discounts and deferred amount on refunding) | 26,800,127 | 5,783,114 | 951,605 | - | - | - | 33,534,846 | - |
| NMED loan | - | - | 12,830,162 | - | - | - | 12,830,162 | - |
| Compensated absences | 463,864 | 15,746 | 15,746 | - | 31,541 | 3,025 | 529,922 | - |
| Capital lease payable | - | - | - | - | 356,708 | - | 356,708 | - |
| Total noncurrent liabilities | <u>27,263,991</u> | <u>5,798,860</u> | <u>13,797,513</u> | <u>-</u> | <u>388,249</u> | <u>3,025</u> | <u>47,251,638</u> | <u>-</u> |
| Total liabilities | <u>52,505,693</u> | <u>7,244,360</u> | <u>15,406,862</u> | <u>438,759</u> | <u>547,158</u> | <u>26,351</u> | <u>76,169,183</u> | <u>802,427</u> |
| NET ASSETS | | | | | | | | |
| Invested in capital assets, net of related debt | 188,722,755 | 19,478,549 | 10,311,343 | 63,274 | 2,357,900 | 6,691,450 | 227,625,271 | - |
| Restricted for debt service | 2,090,585 | 451,121 | 74,231 | - | - | - | 2,615,937 | - |
| Unrestricted | 22,031,374 | 2,296,448 | 5,074,562 | 317,141 | 222,279 | 348,362 | 30,290,166 | (327,032) |
| Total net assets | <u>\$ 212,844,714</u> | <u>\$ 22,226,118</u> | <u>\$ 15,460,136</u> | <u>\$ 380,415</u> | <u>\$ 2,580,179</u> | <u>\$ 7,039,812</u> | <u>\$ 260,531,374</u> | <u>\$ (327,032)</u> |

CITY OF FARMINGTON, NEW MEXICO
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

| | Business-type Activities Enterprise Funds | | | | | | Totals | Governmental Activities Internal Service Fund |
|--|--|----------------------|-----------------------|-------------------|---------------------|---------------------|-----------------------|---|
| | Electric Utility | Water Utility | Wastewater Utility | Sanitation | Golf Courses | Airport | | |
| Operating revenues: | | | | | | | | |
| Charges for sales and services: | | | | | | | | |
| Electric | \$ 89,356,434 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 89,356,434 | \$ - |
| Water | - | 7,960,059 | - | - | - | - | 7,960,059 | - |
| Wastewater | - | - | 5,065,458 | - | - | - | 5,065,458 | - |
| Sanitation | - | - | - | 3,822,965 | - | - | 3,822,965 | - |
| Golf course | - | - | - | - | 1,118,809 | - | 1,118,809 | - |
| Airport | - | - | - | - | - | 594,199 | 594,199 | - |
| Health | - | - | - | - | - | - | - | 4,384,248 |
| Other revenues | 445,424 | 31,681 | 6,493 | 66,911 | 2,504 | - | 553,013 | - |
| Total operating revenues | <u>89,801,858</u> | <u>7,991,740</u> | <u>5,071,951</u> | <u>3,889,876</u> | <u>1,121,313</u> | <u>594,199</u> | <u>108,470,937</u> | <u>4,384,248</u> |
| Operating expenses: | | | | | | | | |
| Salaries and fringe benefits | 8,167,772 | 413,759 | 187,461 | - | 615,122 | 228,927 | 9,613,041 | - |
| Purchased power, fuel and chemicals | 40,895,737 | - | - | - | - | - | 40,895,737 | - |
| Other operating expenses | 7,590,489 | 4,692,905 | 2,926,530 | 3,808,279 | 385,528 | 408,174 | 19,811,905 | 4,561,636 |
| Depreciation and amortization | 7,222,088 | 1,608,687 | 1,146,288 | 7,449 | 216,361 | 1,175,162 | 11,376,035 | - |
| Total operating expenses | <u>63,876,086</u> | <u>6,715,351</u> | <u>4,260,279</u> | <u>3,815,728</u> | <u>1,217,011</u> | <u>1,812,263</u> | <u>81,696,718</u> | <u>4,561,636</u> |
| Operating income (loss) | <u>25,925,772</u> | <u>1,276,389</u> | <u>811,672</u> | <u>74,148</u> | <u>(95,698)</u> | <u>(1,218,064)</u> | <u>26,774,219</u> | <u>(177,388)</u> |
| Nonoperating revenues (expenses): | | | | | | | | |
| Investment earnings | 1,118,186 | 105,335 | 197,755 | 12,563 | 9,015 | 12,121 | 1,454,975 | - |
| Interest expense | (1,420,637) | (308,241) | (435,209) | - | - | - | (2,164,087) | - |
| Revenue from operating grants | - | - | - | - | - | 789,031 | 789,031 | - |
| Other fiscal charges | 143,731 | 31,015 | 5,103 | - | - | - | 179,849 | - |
| Total nonoperating revenues (expenses) | <u>(158,720)</u> | <u>(171,891)</u> | <u>(232,351)</u> | <u>12,563</u> | <u>9,015</u> | <u>801,152</u> | <u>259,768</u> | <u>-</u> |
| Income (loss) before operating transfers | <u>25,767,052</u> | <u>1,104,498</u> | <u>579,321</u> | <u>86,711</u> | <u>(86,683)</u> | <u>(416,912)</u> | <u>27,033,987</u> | <u>(177,388)</u> |
| Capital contributions | 917,311 | 10,181 | - | - | 5,500 | - | 932,992 | - |
| Transfers in | - | - | - | - | - | 121,658 | 121,658 | 750,000 |
| Transfers out | (1,460,776) | (398,489) | (187,959) | - | - | - | (2,047,224) | - |
| Change in net assets | 25,223,587 | 716,190 | 391,362 | 86,711 | (81,183) | (295,254) | 26,041,413 | 572,612 |
| Total net assets-beginning | 187,621,127 | 21,509,928 | 15,068,774 | 293,704 | 2,661,362 | 7,335,066 | 234,489,961 | (899,644) |
| Total net assets-ending | <u>\$ 212,844,714</u> | <u>\$ 22,226,118</u> | <u>\$ 15,460,136</u> | <u>\$ 380,415</u> | <u>\$ 2,580,179</u> | <u>\$ 7,039,812</u> | <u>\$ 260,531,374</u> | <u>\$ (327,032)</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

| | Business-type Activities Enterprise Funds | | | | | | Totals | Governmental Activities Internal Service Fund |
|---|--|---------------------|-----------------------|-------------------|-------------------|-------------------|----------------------|---|
| | Electric Utility | Water Utility | Wastewater Utility | Sanitation | Golf Courses | Airport | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Receipts from customers/users | \$ 87,763,480 | \$ 8,068,718 | \$ 5,101,944 | \$ 3,874,314 | \$ 1,121,666 | \$ 646,700 | \$ 106,576,822 | \$ 3,910,360 |
| Payments to suppliers | (50,395,444) | (5,297,654) | (4,291,379) | (3,779,964) | (488,075) | (436,462) | (64,688,978) | (4,865,016) |
| Payments to employees | (5,009,443) | (385,876) | (185,178) | - | (635,993) | (237,809) | (6,454,299) | - |
| Net cash provided by operating activities | <u>32,358,593</u> | <u>2,385,188</u> | <u>625,387</u> | <u>94,350</u> | <u>(2,402)</u> | <u>(27,571)</u> | <u>35,433,545</u> | <u>(954,656)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | | | |
| Transfer to other funds | (1,460,776) | (398,489) | (187,959) | - | - | - | (2,047,224) | 206,163 |
| Transfer from other funds | - | - | - | - | - | 121,658 | 121,658 | 750,000 |
| Advances from other funds | - | - | - | - | - | - | - | - |
| Operating grants | - | - | - | - | - | 789,031 | 789,031 | - |
| Other fiscal charges | 143,731 | 31,015 | 5,103 | - | - | - | 179,849 | - |
| Net cash provided (used) by capital and related financing activities | <u>(1,317,045)</u> | <u>(367,474)</u> | <u>(182,856)</u> | <u>-</u> | <u>-</u> | <u>910,689</u> | <u>(956,686)</u> | <u>956,163</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | | | |
| Proceeds from capital debt | - | - | - | - | - | - | - | - |
| Capital contributions | 917,311 | 10,181 | - | - | 5,500 | - | 932,992 | - |
| Purchases of capital assets | - | - | - | - | (5,500) | (939,940) | (945,440) | - |
| Acquisition and construction of capital assets | (16,356,298) | (764,458) | (452,284) | - | - | - | (17,573,040) | - |
| Restricted assets | (3,377,903) | (38,490) | 1,345,396 | - | - | - | (2,070,997) | - |
| Principal paid on capital debt | (632,140) | (826,825) | (140,808) | - | - | - | (1,599,773) | - |
| Interest paid on capital debt | (1,420,637) | (308,241) | (435,209) | - | - | - | (2,164,087) | - |
| Net cash provided (used) by capital and related financing activities | <u>(20,869,667)</u> | <u>(1,927,833)</u> | <u>317,095</u> | <u>-</u> | <u>-</u> | <u>(939,940)</u> | <u>(23,420,345)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Interest and dividends received | 1,118,186 | 105,335 | 197,755 | 12,563 | 9,015 | 12,121 | 1,454,975 | - |
| Net increase in cash and cash equivalents | 11,290,067 | 195,216 | 957,381 | 106,913 | 6,613 | (44,701) | 12,511,489 | 1,507 |
| Cash and cash equivalents, July 1 | 23,033,656 | 1,933,152 | 5,039,682 | 302,550 | 295,897 | 335,761 | 30,940,698 | - |
| Cash and cash equivalents, June 30, 2006 | <u>\$ 34,323,723</u> | <u>\$ 2,128,368</u> | <u>\$ 5,997,063</u> | <u>\$ 409,463</u> | <u>\$ 302,510</u> | <u>\$ 291,060</u> | <u>\$ 43,452,187</u> | <u>\$ 1,507</u> |

| | Business-type Activities Enterprise Funds | | | | | | Governmental Activities Internal Service Fund | |
|--|--|------------------|-----------------------|------------|-----------------|----------------|---|--------------|
| | Electric Utility | Water Utility | Wastewater Utility | Sanitation | Golf Courses | Airport | | Totals |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | | | |
| Operating income (loss) | \$ 25,925,772 | \$ 1,276,389 | \$ 811,672 | \$ 74,148 | \$ (95,698) | \$ (1,218,064) | \$ 26,774,219 | \$ (177,388) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation expense | 7,222,088 | 1,608,687 | 1,146,288 | 7,449 | 216,361 | 1,175,162 | 11,376,035 | - |
| (Increase) decrease in accounts receivable | 498,845 | 59,402 | 26,302 | 5,405 | 353 | 52,501 | 642,808 | (473,888) |
| (Increase) in accrued unbilled revenues | 8,224 | 9,250 | 2,272 | (20,967) | - | - | (1,221) | - |
| (Increase) decrease in inventories | (878,052) | (189,685) | (27,045) | - | - | - | (1,094,782) | - |
| (Increase) in prepaid items | (24,828) | (4,161) | 1,791 | - | (3,697) | (7,653) | (38,548) | - |
| (Increase) in deferred revenue | (2,545,447) | 8,326 | 1,419 | - | - | - | (2,535,702) | - |
| (Increase) in other accrued expenses | (163,605) | 1,415 | 2,283 | - | (20,871) | (8,882) | (189,660) | - |
| (Decrease) in due to other funds | - | - | - | - | - | - | - | - |
| (Increase) in accrued claims payable | - | - | - | - | - | - | - | (215,755) |
| (Increase) in customer deposits | 3,321,934 | 26,468 | - | - | - | - | 3,348,402 | - |
| Increase (decrease) in accounts payable | (1,006,338) | (410,903) | (1,339,595) | 28,315 | (6,011) | (20,635) | (2,755,167) | (87,625) |
| Increase (decrease) in capital lease | - | - | - | - | (92,839) | - | (92,839) | - |
| Total adjustments | 6,432,821 | 1,108,799 | (186,285) | 20,202 | 93,296 | 1,190,493 | 8,659,326 | (777,268) |
| Net cash provided by operating activities | \$ 32,358,593 | \$ 2,385,188 | \$ 625,387 | \$ 94,350 | \$ (2,402) | \$ (27,571) | \$ 35,433,545 | \$ (954,656) |



Notes to the Financial Statements

CITY OF FARMINGTON, NEW MEXICO

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Farmington, (City), New Mexico, which was incorporated in 1901, has a population of approximately 43,200 living within an area of 31 square miles. The City operates under a Council/Manager form of government. Four councilors are elected from designated districts with the Mayor serving at large. This reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's financial statements to be misleading or incomplete.

The City had no blended or discrete component units during the fiscal year ended June 30, 2006.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect costs are not allocated to functions in the statement of activities. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Derived tax revenues (gross receipts taxes, cigarette taxes and gas taxes) are recognized when the underlying transaction takes place. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service* fund accounts for the servicing of general long term debt not being financed by proprietary funds.

The government reports the following major proprietary funds:

The *electric fund* accounts for the activities of the City's electric utility.

The *water fund* accounts for the activities of the City's water utility.

The *wastewater fund* accounts for the activities of the City's wastewater utility.

The *sanitation fund* accounts for the activities of the City's sanitation utility.

The *golf fund* accounts for the activities of the City's two golf courses.

The *airport fund* accounts for the activities of the City's airport operations.

Additionally, the government reports the following fund type:

The *internal service fund* accounts for health insurance services provided to City employees on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's electric, water, wastewater, and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The utilities also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is City policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, repurchase agreements, Certificates of Deposits, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied and collected by San Juan County. The County remits to the City amounts collected for the applicable portion of the property taxes in the month following the date of receipt. The City recognizes property taxes as revenue on the modified accrual basis. Oil and gas taxes received from the County are recognized as revenue when received by the City.

Property taxes are levied as of January 1st on property values assessed on the same date. The tax levy is payable in two installments, November 10th and May 10th. The property taxes are considered delinquent and subject to lien, penalty, and interest, 30 days after the date on which they are due.

3. Inventories and prepaid items

All inventories are valued at cost using the weighted-average method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond renewal, replacement, and contingency" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. Customer deposits, as well as customer overpayments, are also classified as restricted assets. The deposits and overpayments remain the property of the customers, and the restricted account reports these assets separately from current assets available for operations to demonstrate the fiduciary relationship with the customers.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Such assets, including infrastructure, have higher limits that must be met before they are capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Computer software costs, whether externally purchased or developed in-house, shall be capitalized if the total cost of the software equals or exceeds \$5,000 and has a life of at least two years. Library books are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| | |
|-----------------------------------|--------------|
| Buildings and structures | 7 - 45 years |
| Improvements other than buildings | 5 - 75 years |
| Infrastructure | 3 - 50 years |
| Personal property | 5 - 45 years |

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accrued sick leave over 520 hours, (728 hours for fire shift personnel), may be converted to vacation time at the conversion ratio of three sick days to one vacation day at any time. A liability for accrued convertible sick leave is reported in the proprietary funds. A liability for these amounts is reported in the governmental funds only if they have matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement). Payments of accrued compensated absences are made upon employee termination and usually are paid from either the general or electric fund.

7. *Long-term obligations*

In the government-wide financial statements and 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 debt issued is reported as other financing sources.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation, or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Reserved fund balances

The New Mexico Department of Finance and Administration (DFA) requires that 1/12th of the general fund budgeted expenditures (\$3,931,692) be reserved as subsequent year expenditures to maintain an adequate cash flow until the next significant property tax collection.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$14,178,333 difference are as follows:

| | | |
|---|----|-------------------|
| Bonds payable | \$ | 12,800,000 |
| Bond premium (to be amortized over the life of the debt) | | 175,148 |
| Issuance costs (to be amortized over the life of the debt) | | (180,770) |
| Accrued interest payable | | 21,371 |
| Compensated absences payable | | <u>1,362,584</u> |
| Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i> | \$ | <u>14,178,333</u> |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balance-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” Details of this \$6,916,529 are as follows:

| | | |
|---|----|------------------|
| Capital outlay | \$ | 13,065,589 |
| Depreciation | | (6,031,607) |
| Loss on disposals and other | | <u>(117,453)</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | \$ | <u>6,916,529</u> |

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities”. Details of this \$1,057,786 are as follows:

| | | |
|---|----|------------------|
| Principal repayments | \$ | 1,060,000 |
| Amortization of bond premium | | 21,894 |
| Amortization of issuance costs | | (22,596) |
| Accrued interest | | 4,706 |
| Capital leases | | 98,005 |
| Compensated absences | | <u>(104,223)</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | \$ | <u>1,057,786</u> |

Another element of that reconciliation states that: “the net revenue/expense of certain activities of internal service funds is reported with governmental funds.” The details of this \$(177,388) difference are as follows:

| | |
|--|---------------------|
| Internal service charges for services | \$ 4,384,248 |
| Internal service operating expenses | <u>(4,561,636)</u> |
| Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ (177,388)</u> |

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted for all funds. All budgets are consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at fiscal year end. Carryover funds must be appropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as a reserved portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended by City Council ordinance with approval by the State Department of Finance and Administration. City department heads may make transfers of appropriations within a fund. The legal level of budgetary control is the fund level. Increases or decreases of appropriations between funds require the approval of the governing council.

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. In April or May the City Manager submits to the Council a proposed preliminary operating budget for the fiscal year commencing the following July 1st. The budget includes proposed expenditures and the means of financing them. The budget is prepared by fund, department, and function.
2. In late June, after there has been an opportunity for public comment, the City Council adopts the budget as finalized.
3. By the end of July the Local Government Division of the State Department of Finance and Administration approves the final budget.
4. After the budget is adopted any supplemental appropriations must be approved by the City Council.

Encumbrance accounting is employed by the City. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are carried forward to the new fiscal year and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

The City had the following encumbrances outstanding at June 30, 2006:

| | |
|--|---------------------|
| General Fund | \$ 882,229 |
| Gross Receipts Tax Streets Fund | 443,808 |
| Gross Receipts Tax Parks & Public Works Fund | 714,739 |
| Library Gifts and Grants Fund | 159,249 |
| Museum Gifts and Grants Fund | 132,099 |
| Lodgers Tax Fund | 642 |
| State Police Protection Fund | 5,251 |
| Region II Narcotics Grant Fund | 1,423 |
| Community Development Grant Projects | 629,487 |
| Gross Receipts Tax Bond Proceeds Projects Fund | 21 |
| Fire GRT Bond Projects Fund | 691,725 |
| Electric Utility Fund | 2,484,990 |
| Water Utility Fund | 559,605 |
| Wastewater Utility Fund | 40,173 |
| Airport Fund | 242,169 |
| Total Encumbrances | <u>\$ 6,987,610</u> |

B. Excess of expenditures over appropriations

For the year ended June 30, 2006, the sanitation fund shows a negative budget variance in expenses of \$12,241. This was due to booking accrued unbilled revenue received in July and the related expense which was booked due to the sanitation contract which states that 94% of the revenue will be paid to the contractor. This accrual entry was made after the final budget revision was approved. The airport fund shows a negative budget variance in expenses of \$19,873. This fund received additional revenues during the year and the revenue increase was included in the final budget revision but the corresponding expenses were omitted.

C. Deficit Fund Equity

As of June 30, 2006, the health insurance internal service fund had a deficit net asset balance of \$(327,032). This deficit is equal to an accrued claims payable amount of \$502,427 and an interfund loan of \$300,000, less cash and receivables totaling \$475,395. Continued high claims contributed to this deficit. The negative net asset balance improved by \$572,612 over FY 2005. Beginning in July of FY 2007, a health insurance premium increase will be implemented in an effort to return this fund to solvency. This premium increase will be paid for by the City.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

As of June 30, 2006, the City had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|----------------------|--|
| Repurchase Agreements | \$ 4,313,851 | 0.08 |
| Certificates of Deposit | 58,071,945 | 1.59 |
| State Treasurer's Pool | 2,824 | 0.08 |
| Total Fair Value | <u>\$ 62,388,620</u> | |
| Portfolio weighted average maturity | | <u>1.48</u> |

Interest rate risk. In accordance with its investment policy, the City manages its exposure to interest rate risk by limiting the duration of investments to three years.

Credit risk. As directed by State Statute 6-10-36, E. and F., excess funds may be invested in securities backed by the full faith and credit of the United States Government, such as treasury notes, bills and bonds; in securities of Agencies that are guaranteed by the United States Government; bonds or negotiable securities of the State of New Mexico or of any county, municipality or school district in the State of New Mexico which has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statute requires that the bank deposits be 50% collateralized and repurchase agreements be 102% collateralized. As of June 30, 2006, the City was in compliance with state statute. The City’s carrying amount of deposits as of June 30, 2006 was \$65,141,039 and the bank balance was \$66,176,177. Of the bank balance, \$400,000 was covered by federal depository insurance, \$43,765,142 was collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name, and \$22,011,035 was uncollateralized, and subject to custodial credit risk.

Collateral. The following guidelines are used to determine the level of collateral required from each financial institution. These ratios are in agreement with those set by the State Board of Finance for the State of New Mexico. The City Council authorizes the City Manager or his/her designee to set a higher level of collateral required based on criteria other than the ratios below. In no case shall the requirements be less than 50%.

| Banking Institutions | | | |
|---|------------|--------------|----------------|
| Percentage Level of Collateralization Required | | | |
| Ratios | 50% | 75% | 100% |
| <u>Primary Capital</u> Assets | Above 6% | 5% - 6% | Less than 5% |
| <u>Net Operating Income</u> Total Average Assets | Above .60% | .051% - .60% | Less than .51% |
| <u>Non-Performing Loans</u> Primary Capital | Under 35% | 35% - 49.9% | Above 49.9% |
| Savings and Loan Institutions | | | |
| Percentage Level of Collateralization Required | | | |
| Ratios | 50% | 75% | 100% |
| <u>Net Worth</u> Average Assets | Above 3% | 2% - 3% | Less than 2% |
| 4 Qtrs Avg Net <u>Income Before Tax</u> 4 Qtrs Avg Assets | Above .3% | .2% - .3% | Less than .2% |
| 2 Consecutive Quarters of After Tax Losses | | Yes | |
| 3 Consecutive Quarters of After Tax Losses | | | Yes |

Only securities backed by the full faith and credit of the United States Government will be accepted as collateral. The City may make an exception and accept as collateral securities from a governmental entity within the State of New Mexico as described by State Statute 6-10-16, B.

All securities pledged as collateral shall be held by a third-party financial institution approved by the City Manager or his/her designee. Any change in the institution holding the collateral must have prior approval of the City Manager or his/her designee.

The City has investments in the State Treasurer external investment pool (the Local Government Investment Pool). The investments are valued at fair value based on quoted market prices as of June 30, 2006. The State Treasurer Local Government Investment Pool (LGIP) is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary. The LGIP has been rated by Standard & Poor's and has received an AAAM rating.

B. Receivables

Receivables as of June 30, 2006 are as follows:

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Enterprise</u> | <u>Total</u> |
|--|---------------------|----------------------------|-------------------------|---------------------|----------------------|
| Receivables: | | | | | |
| Accounts Receivable | \$ 273,523 | \$ 36,414 | \$ 254,582 | \$ 4,984,871 | \$ 5,549,390 |
| Unbilled Revenue | - | - | - | 4,972,090 | 4,972,090 |
| Special Assessments | 14,869 | - | - | - | 14,869 |
| Due from other funds | 300,000 | - | - | - | 300,000 |
| Intergovernmental | 8,540,884 | 2,460,161 | - | 64,541 | 11,065,586 |
| Gross Receivables | <u>9,129,276</u> | <u>2,496,575</u> | <u>254,582</u> | <u>10,021,502</u> | <u>21,901,935</u> |
| Less: Allowance for Uncollectibles | - | - | - | (499,223) | (499,223) |
| Net Total Receivables: | <u>\$ 9,129,276</u> | <u>\$ 2,496,575</u> | <u>\$ 254,582</u> | <u>\$ 9,522,279</u> | <u>\$ 21,402,712</u> |

Intergovernmental receivables are made up of the following amounts in the general and special revenue funds: gross receipts taxes \$8,416,916, property taxes \$1,261,420, federal and state grants \$ 811,502, franchise taxes \$150,667, lodger's taxes \$188,686 and gasoline taxes \$171,854.

Revenues of the utilities are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

| | |
|---|-------------------|
| Uncollectibles related to electric sales | \$ 166,281 |
| Uncollectibles related to water sales | 7,951 |
| Uncollectibles related to wastewater charges | 5,845 |
| Uncollectibles related to sanitation charges | 3,729 |
| Total uncollectibles of the current fiscal year | <u>\$ 183,806</u> |

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The City reported no unearned revenue during the year. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

| | <u>Unavailable</u> |
|---|---------------------|
| Property Tax | \$ 1,261,420 |
| Delinquent Gas Taxes | 46,579 |
| Lodger's Tax | 48,407 |
| Total deferred revenue for governmental funds | <u>\$ 1,356,406</u> |

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

| <u>Governmental activities</u> | Balance <u>July 1, 2005</u> | <u>Transfers</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2006</u> |
|---------------------------------------|--------------------------------|------------------|---------------------|---------------------|---------------------------------|
| Non-Depreciable Assets: | | | | | |
| Land | \$ 25,436,012 | \$ - | \$ 344,114 | \$ - | \$ 25,780,126 |
| Construction in progress | 4,576,894 | - | 7,059,081 | (643,997) | 10,991,978 |
| Total Non-Depreciable Assets | <u>30,012,906</u> | <u>-</u> | <u>7,403,195</u> | <u>(643,997)</u> | <u>36,772,104</u> |
| Depreciable Assets: | | | | | |
| Buildings | 45,491,834 | 1,740 | 1,885,422 | (13,827) | 47,365,169 |
| Improvements other than buildings | 9,441,573 | (1,740) | 510,917 | (1,800) | 9,948,950 |
| Equipment | 21,028,304 | - | 1,957,245 | (687,328) | 22,298,221 |
| Infrastructure | 52,877,375 | - | 1,943,452 | (19,655) | 54,801,172 |
| Total Depreciable Assets | <u>128,839,086</u> | <u>-</u> | <u>6,297,036</u> | <u>(722,610)</u> | <u>134,413,512</u> |
| Total Governmental Assets | <u>158,851,992</u> | <u>-</u> | <u>13,700,231</u> | <u>(1,366,607)</u> | <u>171,185,616</u> |
| Accumulated Depreciation: | | | | | |
| Buildings | (20,362,135) | (1,066) | (1,733,572) | 8,276 | (22,088,497) |
| Improvements other than buildings | (2,878,315) | 1,066 | (712,951) | 1,800 | (3,588,400) |
| Equipment | (13,458,390) | - | (1,916,060) | 584,781 | (14,789,669) |
| Infrastructure | (41,935,999) | - | (1,669,024) | 19,655 | (43,585,368) |
| Total Accumulated Depreciation | <u>(78,634,839)</u> | <u>-</u> | <u>(6,031,607)</u> | <u>614,512</u> | <u>(84,051,934)</u> |
| Net Governmental Assets | <u>\$ 80,217,153</u> | <u>\$ -</u> | <u>\$ 7,668,624</u> | <u>\$ (752,095)</u> | <u>\$ 87,133,682</u> |

| <u>Business-type activities</u> | Balance <u>July 1, 2005</u> | <u>Transfers</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2006</u> |
|--|--------------------------------|------------------|----------------------|------------------------|---------------------------------|
| Non-Depreciable Assets: | | | | | |
| Land | \$ 2,752,930 | \$ - | \$ 2,034,057 | \$ - | \$ 4,786,987 |
| Construction in progress | 76,528,222 | - | 18,739,610 | (65,379,465) | 29,888,367 |
| Total Non-Depreciable Assets | <u>79,281,152</u> | <u>-</u> | <u>20,773,667</u> | <u>(65,379,465)</u> | <u>34,675,354</u> |
| Depreciable Assets: | | | | | |
| Land Rights | 1,633,943 | - | 124,948 | - | 1,758,891 |
| Buildings | 71,936,464 | - | 22,695,830 | - | 94,632,294 |
| Improvements other than buildings | 95,521,293 | (676) | 5,612,605 | (48,022) | 101,085,200 |
| Equipment | 186,610,686 | 676 | 34,613,046 | (593,046) | 220,631,362 |
| Total Depreciable Assets | <u>355,702,386</u> | <u>-</u> | <u>63,046,429</u> | <u>(641,068)</u> | <u>418,107,747</u> |
| Total Business-type Assets | <u>434,983,538</u> | <u>-</u> | <u>83,820,096</u> | <u>(66,020,533)</u> | <u>452,783,101</u> |
| Accumulated Depreciation: | | | | | |
| Land Rights | (595,733) | - | (44,863) | - | (640,596) |
| Buildings | (28,782,609) | - | (2,081,233) | - | (30,863,842) |
| Improvements other than buildings | (43,086,706) | 6,178 | (3,585,176) | 242,550 | (46,423,154) |
| Equipment | (90,309,542) | (6,178) | (5,664,763) | 476,367 | (95,504,116) |
| Total Accumulated Depreciation | <u>(162,774,590)</u> | <u>-</u> | <u>(11,376,035)</u> | <u>718,917</u> | <u>(173,431,708)</u> |
| Net Business-type Assets | <u>\$ 272,208,948</u> | <u>\$ -</u> | <u>\$ 72,444,061</u> | <u>\$ (65,301,616)</u> | <u>\$ 279,351,393</u> |

Enterprise Assets – by fund

| | <u>Electric</u> | <u>Water</u> | <u>Wastewater</u> | <u>Sanitation</u> | <u>Golf</u> | <u>Airport</u> |
|-----------------------------------|-----------------------|----------------------|----------------------|-------------------|---------------------|---------------------|
| Land and land Rights | \$ 3,543,906 | \$ 1,614,275 | \$ 479,388 | \$ 23,341 | \$ 100,000 | \$ 784,968 |
| Buildings and Structures | 55,440,953 | 13,990,025 | 22,376,821 | 80,640 | 781,367 | 1,962,488 |
| Improvements other Than buildings | 42,956,875 | 27,799,780 | 10,774,194 | 14,839 | 2,473,353 | 17,066,159 |
| Equipment | 209,285,182 | 6,923,003 | 2,051,207 | 101,099 | 1,023,026 | 1,247,845 |
| Total | <u>311,226,916</u> | <u>50,327,083</u> | <u>35,681,610</u> | <u>219,919</u> | <u>4,377,746</u> | <u>21,061,460</u> |
| Less accumulated Depreciation | (120,444,725) | (24,329,549) | (11,595,450) | (156,645) | (1,563,732) | (15,341,607) |
| Work in progress | 28,660,632 | 110,001 | 146,137 | - | - | 971,597 |
| Net Assets | <u>\$ 219,442,823</u> | <u>\$ 26,107,535</u> | <u>\$ 24,232,297</u> | <u>\$ 63,274</u> | <u>\$ 2,814,014</u> | <u>\$ 6,691,450</u> |

In 1988, the City entered into a lease agreement to lease land for the Pinon Hills Golf Course from San Juan College for \$10. The lease expires in the year 2087, at which time the land, including improvements, will be returned to San Juan College.

Depreciation expense was charged to functions / programs of the government as follows:

Governmental activities:

| | |
|--|---------------------|
| General government | \$ 610,767 |
| Police | 683,428 |
| Fire | 323,033 |
| Parks, recreation, cultural affairs | 2,473,627 |
| Community development | 541,922 |
| Highways and streets | <u>1,398,830</u> |
| Total depreciation expense - governmental activities | <u>\$ 6,031,607</u> |

Business-type activities:

| | |
|---|----------------------|
| Electric | \$ 7,222,088 |
| Water | 1,608,687 |
| Wastewater | 1,146,288 |
| Sanitation | 7,449 |
| Golf | 216,361 |
| Airport | <u>1,175,162</u> |
| Total depreciation expense - business-type activities | <u>\$ 11,376,035</u> |

Construction commitments

The City has an active construction project as of June 30, 2006. The project is the building of a new fire station. At year end, the City's commitment with contractors was as follows:

| Project | Expended to-date | Remaining Commitment |
|-----------------|-------------------------|-----------------------------|
| Fire Station #6 | <u>\$ 2,042,099</u> | <u>\$ 129,243</u> |

D. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2006 is as follows:

Interfund Payables

| | Due From | Due To |
|-------------------------------|-------------------|-------------------|
| General fund - operating loan | \$ - | \$ 300,000 |
| Health fund – operating loan | <u>300,000</u> | <u>-</u> |
| Total Interfund Payables | <u>\$ 300,000</u> | <u>\$ 300,000</u> |

Transfers

| Governmental Funds | In | Out |
|--|----------------------------|----------------------------|
| General fund – operating transfer | \$ - | \$ 901,658 |
| General fund – operating transfer (pilt) | 2,047,224 | - |
| General fund – matching funds for fire station | - | 200,000 |
| General fund – matching funds for pd grant | 380 | - |
| General fund – loan repayment | 74,000 | - |
| GRT streets fund – operating transfer | - | 511,500 |
| GRT parks and public works – operating transfer | - | 74,000 |
| Region II fund – matching funds for grant | 30,000 | - |
| State fire grant fund – matching funds for fire station | - | 137,000 |
| Law enforcement block grant fund – matching funds for grant | - | 380 |
| Community development grant projects fund – operating transfer | 511,500 | - |
| Fire gross receipts bond tax projects fund – matching funds for fire station | 237,000 | - |
| Debt service fund – operating transfer | 100,000 | - |
| Health Fund transfer – operating transfer | <u>750,000</u> | <u>-</u> |
| Total governmental funds transfers | <u>3,750,104</u> | <u>\$ 1,824,538</u> |
| Net governmental funds transfers | <u>\$ 1,925,566</u> | |
| Business-type funds | | |
| Electric utility fund – operating transfer (pilt) | \$ - | \$ 1,460,776 |
| Water utility fund – operating transfer (pilt) | - | 398,489 |
| Wastewater utility fund – operating transfer (pilt) | - | 187,959 |
| Airport fund – operating transfer | <u>121,658</u> | <u>-</u> |
| Total business-type funds transfers | <u>\$ 121,658</u> | <u>2,047,224</u> |
| Net business-type transfers | | <u>\$ 1,925,566</u> |

E. Leases

Capital Leases

The City has entered into two lease agreements for golf carts and turf equipment for the golf courses. The golf carts are valued at \$198,305 and the turf equipment is valued at \$ 381,092. Both of these agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through this capital lease are as follows:

| Asset: | <u>Business Activities</u> |
|--------------------------------|--------------------------------|
| Machinery and equipment | \$ 579,397 |
| Less: accumulated depreciation | <u>(173,819)</u> |
| Total | <u>\$ 405,578</u> |

The future minimum lease obligation and the net present value of those minimum lease payments as of June 30, 2006 were as follows:

| Year Ending | <u>Golf Carts</u> | <u>Golf Course Turf Equipment</u> |
|---|-------------------|---|
| June 30, 2007 | \$ 39,499 | \$ 88,032 |
| June 30, 2008 | 39,499 | 88,032 |
| June 30, 2009 | <u>114,980</u> | <u>146,626</u> |
| Total minimum lease payments | 193,978 | 322,690 |
| Less: amount representing interest | <u>(24,938)</u> | <u>(35,616)</u> |
| Present value of minimum lease payments | <u>\$ 169,040</u> | <u>\$ 287,074</u> |

F. Long-term debt

General Obligation bonds

The City has the capacity to issue general obligation bonds to provide funds for the acquisition and/or construction of major capital projects, but as of June 30, 2006 no general obligation bonds had been issued.

Revenue bonds

The City also has the capacity and has issued Sales Tax Revenue Bonds whereby the City has pledged income derived from the Gross Receipts Tax to pay the required debt service on the bonds.

During FY 2002, the City redeemed the outstanding balance on the 1993 Sales Tax Revenue Bond issue in the amount of \$395,000. With the issuance of the 2001 Sales Tax Revenue Improvement and Refunding Bonds the City provided for the refunding of the previously issued 1994 Sales Tax Revenue Bonds and issued an additional \$11 million dollars for the purpose of completing construction of a new library and several major street projects.

In FY 2005, the City issued \$5,725,000 of Series 2005 Sales Tax Revenue Bonds to provide funds to construct, furnish, equip and improve fire-fighting facilities and acquire and rehabilitate fire-fighting equipment.

On December 17, 2002 the City issued \$44,390,000 of 2002A utility revenue bonds and \$2,280,000 of 2002B utility revenue bonds to refund \$47,150,000 of 1992 utility revenue bonds. The estimated present value benefit of refunding the 1992 bonds is \$6,342,865. The transaction resulted in an accounting loss of \$2,959,014.

Revenue bonds outstanding as of June 30, 2006 are as follows:

| | Interest Rates | General Govt | Electric | Water | Wastewater | Total |
|--------------------------------|----------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental Activities | | | | | | |
| Sales Tax Bonds 2001 | 4.00 - 5.00% | \$ 7,365,000 | \$ - | \$ - | \$ - | \$ 7,365,000 |
| Sales Tax Bonds 2005 | 3.25 - 4.00% | 5,435,000 | - | - | - | 5,435,000 |
| Business Activities | | | | | | |
| Serial Bonds 2002 | 2.25 - 5.00% | - | 29,449,507 | 6,354,815 | 1,045,678 | 36,850,000 |
| Total Amount | | \$12,800,000 | \$29,449,507 | \$ 6,354,815 | \$ 1,045,678 | \$49,650,000 |

Annual debt service requirements to maturity for revenue bonds are as follows:

| Year Ending June 30 | General Govt. | | Electric | | Water | | Wastewater | |
|---------------------|----------------------|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | \$ 1,130,000 | \$ 512,904 | \$ 3,919,941 | \$ 1,316,642 | \$ 845,872 | \$ 284,113 | \$ 139,187 | \$ 46,750 |
| 2008 | 1,180,000 | 470,217 | 4,103,751 | 1,135,868 | 885,535 | 245,105 | 145,714 | 40,332 |
| 2009 | 1,225,000 | 425,643 | 4,267,581 | 971,718 | 920,888 | 209,684 | 151,531 | 34,503 |
| 2010 | 1,270,000 | 379,342 | 4,415,428 | 822,352 | 952,791 | 177,453 | 156,781 | 29,200 |
| 2011 | 1,315,000 | 330,393 | 4,639,197 | 601,581 | 1,001,077 | 129,813 | 164,726 | 21,361 |
| 2012 | 1,370,000 | 279,692 | 4,870,956 | 369,622 | 1,051,088 | 79,759 | 172,956 | 13,124 |
| 2013 | 1,420,000 | 225,680 | 3,232,653 | 126,073 | 697,564 | 27,205 | 114,783 | 4,477 |
| 2014 | 1,485,000 | 158,780 | - | - | - | - | - | - |
| 2015 | 445,000 | 96,200 | - | - | - | - | - | - |
| 2016 | 460,000 | 78,400 | - | - | - | - | - | - |
| 2017 | 480,000 | 60,000 | - | - | - | - | - | - |
| 2018 | 500,000 | 40,800 | - | - | - | - | - | - |
| 2019 | 520,000 | 20,800 | - | - | - | - | - | - |
| Total | \$ 12,800,000 | \$ 3,078,851 | \$ 29,449,507 | \$ 5,343,856 | \$ 6,354,815 | \$ 1,153,132 | \$ 1,045,678 | \$189,747 |

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, whereas issuance costs are reported as deferred charges. Deferred amounts on refunding (the difference between the reacquisition price and the net carrying amount of the old debt) are amortized as a component of interest expense. The unamortized portion of the deferred amount is reported as a deduction from revenue bonds payable.

The 2002A Utility Revenue bonds are secured by and are payable solely from the net revenues derived by the City from the utility system (electric, water and wastewater utility funds), after payment of operating and maintenance expenses. Payment is also secured by an insurance policy issued by Financial Guaranty Insurance Company. The Policy is non-cancelable, and the premium was paid at the time of delivery of the bonds. There are a number of limitations and restrictions contained in the bond indenture. As of June 30, 2006, the City was in compliance with all significant limitations and restrictions.

New Mexico Environment Department Loan. In August 2000, the City entered into a loan agreement with the New Mexico Environment Department for a \$9.8 million, 3% loan for expansion of the wastewater treatment plant. On September 9, 2002 the loan amount was increased to \$13 million. As of June 30, 2006, the City has received \$12,830,162 in draw down payments and accrued \$1,346,974 in construction interest. Repayment of the loan, which will be for payments plus construction interest, will begin on July 1, 2007, one year after completion of the expansion.

Defeasance of Prior Debt. In prior years, the City defeased certain outstanding revenue bonds by placing the proceeds of new bonds and additional funds from their respective funds in an irrevocable trust to provide for all future debt service payments on the old bonds. All debt service payments made for the year ended June 30, 2006 were made as scheduled from the trust funds. The trust accounts and the defeased bonds are not included in the City's financial statements. As of June 30, 2006, the following outstanding bonds are considered defeased (amounts in thousands):

| | Series 1983 A | Series 1983 B | Series 1992 |
|--|--------------------------|--------------------------|------------------------|
| Original issue amount | \$ 109,100 | \$ 37,950 | \$ 49,205 |
| Retired prior to fiscal year | (46,715) | (28,510) | (130) |
| Retired during the year ended 2006 | <u>(62,385)</u> | <u>(3,555)</u> | <u>(8,795)</u> |
| Balance of principal remaining | \$ <u>-</u> | \$ <u>5,885</u> | \$ <u>40,280</u> |
| Interest payments made during year ended June 30, 2006 | \$ <u>-</u> | \$ <u>932</u> | \$ <u>2,821</u> |

Changes in Long-term Liabilities

During the year ended June 30, 2006, the following changes occurred in long-term liabilities:

| | Balance | Additions | Reductions | Balance | One Year |
|----------------------------------|----------------|------------------|-------------------|----------------|-----------------|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| 2001 Sales tax revenue | \$ 8,135,000 | \$ - | \$ (770,000) | \$ 7,365,000 | \$ 795,000 |
| 2005 Sales tax revenue | 5,725,000 | - | (290,000) | 5,435,000 | 335,000 |
| Issuance costs | (203,366) | - | 22,596 | (180,770) | - |
| Premium on bonds | 197,042 | - | (21,894) | 175,148 | - |
| Total bonds payable | 13,853,676 | - | (1,059,298) | 12,794,378 | 1,130,000 |
| Capital leases | 98,005 | - | (98,005) | - | - |
| Compensated absences | 1,255,482 | 1,298,976 | (1,191,874) | 1,362,584 | 59,342 |
| Total long-term liabilities | | | | | |
| Governmental activities | \$ 15,207,163 | \$ 1,298,976 | \$ (2,349,177) | \$ 14,156,962 | \$ 1,189,342 |
| Business-type activities: | | | | | |
| Bonds payable: | | | | | |
| Series 2002A | \$ 41,620,000 | \$ - | \$ (4,770,000) | \$ 36,850,000 | \$ 4,905,000 |
| NMED loan | 12,830,162 | - | - | 12,830,162 | - |
| Premium on bonds | 1,819,703 | - | (229,857) | 1,589,846 | - |
| Total bonds payable | 56,269,865 | - | (4,999,857) | 51,270,008 | 4,905,000 |
| Capital leases | 548,953 | - | (92,839) | 456,114 | 99,406 |
| Compensated absences | 890,784 | 519,710 | (440,286) | 970,208 | 440,286 |
| Total long-term liabilities | | | | | |
| Business-type activities | \$ 57,709,602 | \$ 519,710 | \$ (5,532,982) | \$ 52,696,330 | \$ 5,444,692 |

G. Restricted Assets

The following is a summary of restricted assets as of June 30, 2006:

Enterprise Funds

| | Electric | Water | Wastewater | Total |
|---|-----------------|--------------|-------------------|---------------|
| Revenue bond current debt service | \$ 492,240 | \$ 106,219 | \$ 17,478 | \$ 615,937 |
| Revenue bond renewal, replacement and contingency account | 1,598,345 | 344,902 | 56,753 | 2,000,000 |
| Customer deposits/overpayments | 14,507,484 | 208,174 | - | 14,715,658 |
| Total restricted assets | \$ 16,598,069 | \$ 659,295 | \$ 74,231 | \$ 17,331,595 |

V. OTHER INFORMATION

A. Risk Management

The government is exposed to various risks of loss related to torts, theft, property damage, errors and omissions, and natural disasters for which the government has designed a self insurance program in conjunction with commercial insurance coverage. The amount of settlement has not exceeded insurance coverage for the past three fiscal years. Effective November 11, 2002, the self insured retention for excess liability coverage was increased from \$250,000 to \$500,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payments, and other economic and social factors. Changes in the balances of claims liabilities during the past three years are as follows:

| | <u>June 30, 2004</u> | | <u>June 30, 2005</u> | | <u>June 30, 2006</u> | |
|---|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| | <u>Health</u> | <u>Risk Mgmt.</u> | <u>Health</u> | <u>Risk Mgmt.</u> | <u>Health</u> | <u>Risk Mgmt.</u> |
| Unpaid claims, beginning of fiscal year | \$ 841,694 | \$ 1,756,856 | \$ 1,258,436 | \$ 1,486,966 | \$ 718,182 | \$ 1,508,352 |
| Incurred claims and changes in estimate | 3,927,951 | 876,724 | 2,313,954 | 431,857 | 2,974,866 | 398,126 |
| Claim payments | (3,511,209) | (1,146,614) | (2,854,208) | (410,471) | (3,190,621) | (831,074) |
| Unpaid claims, end of fiscal year | <u>\$ 1,258,436</u> | <u>\$ 1,486,966</u> | <u>\$ 718,182</u> | <u>\$ 1,508,352</u> | <u>\$ 502,427</u> | <u>\$ 1,075,404</u> |

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Jointly governed organizations

Joint Powers Agreement for Consolidated Communications Authority. The City is a participant with San Juan County, the City of Aztec and the City of Bloomfield in a joint powers agreement to build, maintain, and operate a centralized communications system for dispatch and emergency response. The City was obligated to contribute \$55,000 per year until the Capital Equipment Fund reached a balance of \$250,000. Thereafter, the City is obligated to contribute 44% of an amount necessary to maintain that balance. During FY 2006, the City contributed \$62,993 to the Authority. Complete financial statements for the Consolidated Communications Authority can be obtained from San Juan County, New Mexico.

Joint Powers Agreement for the San Juan Water Commission. The City is a participant with the cities of Aztec and Bloomfield, the County of San Juan, and the San Juan Rural Waters Users Association in a joint powers agreement to create a countywide entity responsible for water planning and use. Much of the impetus to form the Commission came from the Animas La Plata water project and the subsequent need to develop methods to equitably share the related costs and benefits. In addition to this specific project the Commission is also authorized to acquire additional water rights and provide for the equitable distribution of such water. The Commission is financed by a San Juan County mill levy on real and personal property of approximately 3 mills. During FY 2006 the City did not make any financial contribution to the Commission. Complete financial statements may be obtained by contacting the San Juan Water Commission.

Joint Powers Agreement for the San Juan County Criminal Justice Training Authority. The City joined with the cities of Aztec and Bloomfield, the County of San Juan, the State of New Mexico Department of Public Safety, and the San Juan Community College to create a separate entity to provide law enforcement training on a regional basis. The initial facilities included classrooms at San Juan College, a shooting range, and a driving track. The City is obligated to provide 44% of the operating budget of the authority. During FY 2006 the City contributed \$35,150 as its share of the operating costs. San Juan College is the fiscal agent for the Authority and manages and maintains all accounts on behalf of the Authority. Complete financial statements may be obtained by contacting San Juan College.

D. Other Post Employment Benefits

The City allows retirees to maintain their access to the City health insurance plan by agreeing to assume the responsibility for the full cost of the premium. There are currently 108 retirees that participate in this arrangement out of a total group membership of 608. While there is no premium cost to the City, the cost of retiree claims constitutes a portion of total health expenditures in the health insurance fund.

E. Employee Retirement Systems and Plans

Public Employees Retirement Association (PERA)

Plan Description. The City's full time employees participate in a defined benefit contributory retirement plan through the Public Employees' Retirement Association (PERA) of the State of New Mexico authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). PERA is the administrator of the plan which is a cost-sharing, multiple-employer public employee retirement plan. Actual pension data for the State of New Mexico, as employer, is provided at the state-wide level in a separately issued financial report of the PERA. A copy of the PERA financial report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504.

Retirement Eligibility. Eligibility for receiving the monthly benefits equal to the number of years of credited service times 2.5% of their final average monthly salary for the thirty-six consecutive months of credited service producing the largest average is as follows:

- Any age with 25 or more years of credited service; or age 60 or older with 20 or more years of credited service; or
- Age 61 or older with 17 or more years of credited service; or
- Age 62 or older with 14 or more years of credited service; or
- Age 63 or older with 11 or more years of credited service; or
- Age 64 or older with 8 or more years of credited service; or

Age 65 or older with 5 or more years of credited service.

Police officers and fire fighters are eligible for retirement at any age after 20 years of service. Benefits vest after 5 years of credited service.

Contribution Requirements. Contributions to the pension plan as of June 30, 2006 are equal to percentages of annual salaries as follows:

| | City | Employee | |
|---------|---------------------|---------------------|--------------|
| | Contribution | Contribution | Total |
| Police | 18.50% | 16.30% | 34.80% |
| Fire | 21.25% | 16.20% | 37.45% |
| General | 9.15% | 9.15% | 18.30% |
| IBEW | 9.15% | 13.15% | 22.3% |

The contribution requirements of plan members and the City are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The actuarially determined contribution requirements and actual contributions made for the year ended June 30, 2006 were \$7,278,096, (which consisted of \$3,701,094 from the City and \$3,577,002 from employees; representing 12.1% and 11.7% of covered payroll, respectively). The payroll for employees covered by PERA for the year ended June 30, 2006 was \$30,527,866; the total payroll for all employees of the City was \$36,801,206. Contributions for the past three years are as follows:

| Fiscal | | Annual | | Net |
|---------------|----|----------------|---------------------|-------------------|
| Year | | Pension | Percentage | Benefit |
| | | Cost | Contribution | Obligation |
| 2004 | \$ | 6,215,280 | 100% | \$ - |
| 2005 | \$ | 6,518,720 | 100% | \$ - |
| 2006 | \$ | 7,278,096 | 100% | \$ - |

If member's employment is terminated before the member is eligible for any other benefits under PERA, the member may receive a refund of the member's contribution and interest accrued based on rates established biannually by the retirement board.

Trend Information. Information pertaining to the actuarially computed present value of vested accumulated plan benefits and non-vested accumulated plan benefits, the plan's net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting PERA's progress in accumulating sufficient assets to pay benefits when due is not available by individual government agencies participating in the plan. Actuarial pension data for the State of New Mexico, as employer, is provided at the state-wide level in a separately-issued financial report of the PERA.

F. Undivided Interest in San Juan Unit No. 4.

On November 17, 1981, the City acquired an 8.475% undivided interest in Unit No. 4 of the San Juan Electric Generating Station located in San Juan County, New Mexico. Unit No. 4 is owned 8.475% by the City and 91.525% by the Public Service Company of New Mexico ("PNM") and others. The unit became operational April 27, 1982.

Unit No. 4 provides electricity to the co-owners and to other unrelated parties. The City's pro rata portions of the operations are reported in the accompanying statement of revenues and expenses of the electric utility fund. The operating agreement between the City and PNM provides that PNM and other owners are entitled to receive energy from the Unit on a pro rata basis. Maintenance and operating costs, other than fuel costs, are also shared on a pro rata basis. Fuel costs are paid by PNM and the other owners, including the City, in proportion to their share of monthly energy scheduled and produced from the Unit.

PNM has an option to purchase up to 50% of the City's capacity entitlement and associated energy in Unit No. 4. PNM must give eight years notice of its intent to purchase (no notice has been given). The investment is reported at the amount of the City's equity in the underlying net assets of the unit and is included in the electric utility capital assets.

G. Contracted Water and Wastewater Services.

In November, 1999, the City entered into an agreement with Operations Management International (OMI) to provide water and wastewater services to the City of Farmington. The company operates and maintains the water and wastewater facilities. The contract expires in January, 2008. The company is responsible for operating expenditures, as well as repairs and replacements up to \$2,000. The City paid approximately \$4.7 million for contracted services for the year ended June 30, 2006.

H. Conduit Debt

Conduit debt has been defined by GAAP as "certain limited-obligation revenue bonds or similar debt instruments issued by a local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity." The City has not reported any conduit debt or the related asset on the financial statements. The aggregate amount of all conduit debt obligations as of June 30, 2006 was \$1,343,385,000. This debt will never constitute an indebtedness of the City of Farmington within the meaning of any constitutional or statutory provision of the state of New Mexico and will never constitute or give rise to a pecuniary liability of Farmington or a charge against its general or taxing powers.



Nonmajor Governmental Funds

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes, or to facilitate the management of financial resources internally "designated" for specific purposes. Special revenue funds are authorized by the City Council.

Gross Receipts Tax Streets Fund - City Ordinance 606 established this fund to account for the City's share of gross receipts tax that is legally restricted to the maintenance of streets and storm drainage.

Gross Receipts Tax Parks and Public Works Fund - City Ordinance 81-702 established this fund to account for the City's 1/4% share of gross receipts tax that is legally restricted to the maintenance of streets and parks.

Parks Development Fees Fund - City Council Resolutions 887, dedication of recreation space, and 910, land subdivision regulations - recreation space, established this fund to account for fees collected from developers for the purchase of land and development of parks.

Recreation Fund - City management established this fund to account for the City's share of a state cigarette tax legally restricted for parks and recreation expenditures (approved by City Council Resolution # 2001-1013).

Library Gifts and Grants Fund - City management established this fund to account for state and county gifts and grants restricted for the purchase of library books and other educational library needs.

Parks/Recreation Gifts and Grants Fund - City management established this fund to account for state grants restricted to expenditures for local beautification purposes and expenditures for leisure activities of senior citizens.

Museum Gifts and Grants Fund - City management established this fund to account for state grants restricted to expenditures for museum purposes.

Lodgers Tax Fund - State statute 3-38-15N.M.S.A. and City Ordinance 480 established this fund to account for the City-imposed tax restricted for tourism and promotion. One-fourth of the revenues are restricted to tourism and promotion and three-fourths of the revenues are restricted for promotional facilities.

State Police Protection Fund - City management established this fund to account for state grants restricted for the purchase of police equipment and other approved police needs.

Region II Narcotics Grant Fund - City management established this fund to account for federal grants restricted to expenditures for approved police needs.

Law Enforcement Block Grant Fund - City management established this fund to account for federal grants restricted to expenditures for approved police needs (City Council Resolution # 2001-1013).

State Fire Grant Fund - City management established this fund to account for state grants restricted for the purchase of fire fighting equipment and other approved fire department needs.

Penalty Assessment Fund - City management established this fund to account for traffic fine revenues and disbursements according to City Code 19-84.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Community Development Grant Projects Fund - This fund is used to account for community improvements throughout the City.

Gross Receipts Tax Bond Proceeds Projects Fund - This fund is used to account for various infrastructure projects.

Library Construction Project Fund - This fund is used to account for the purchase of land and the construction of the new library.

Fire Gross Receipts Tax Bond Projects Fund - This fund is used to account for the purchase of new fire trucks and the construction of a new fire station.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources and payment of revenue bond principal and interest from gross receipts tax sources.

CITY OF FARMINGTON, NEW MEXICO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

| | Special Revenue | | | | |
|---|-------------------------------------|---|-----------------------------|------------|--------------------------------|
| | Gross Receipts Tax Streets | Gross Receipts Tax Parks and Public Works | Park Development Fees | Recreation | Library Gifts and Grants |
| ASSETS: | | | | | |
| Pooled cash and investments | \$ 2,966,588 | \$ 2,273,471 | \$ 347,954 | \$ - | \$ 467,508 |
| Accounts receivable | - | - | - | - | - |
| Inventory | - | 76,012 | - | - | - |
| Intergovernmental receivable | 1,004,821 | 921,882 | - | - | - |
| Total assets | 3,971,409 | 3,271,365 | 347,954 | - | 467,508 |
| LIABILITIES: | | | | | |
| Accounts payable | 152,529 | 31,887 | - | - | 38,550 |
| Deferred revenue | 46,579 | - | - | - | - |
| Accrued wages payable | - | 5,854 | - | - | - |
| Total liabilities | 199,108 | 37,741 | - | - | 38,550 |
| FUND BALANCES: | | | | | |
| Unreserved - designated for subsequent years | 3,772,301 | 3,233,624 | 347,954 | - | 428,958 |
| Unreserved | - | - | - | - | - |
| Total fund balances | 3,772,301 | 3,233,624 | 347,954 | - | 428,958 |
| Total liabilities and fund balances | \$ 3,971,409 | \$ 3,271,365 | \$ 347,954 | \$ - | \$ 467,508 |

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

CITY OF FARMINGTON, NEW MEXICO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

| | Special Revenue | | | | |
|---|---|--|------------------------|--|--|
| | Parks/ Recreation Gifts and Grants | Museum Gifts and Grants | Lodgers Tax | State Police Protection Grant | Region II Narcotics Grant |
| ASSETS: | | | | | |
| Pooled cash and investments | \$ 521,547 | \$ 25,501 | \$ 462,191 | \$ 1,338 | \$ 163,058 |
| Accounts receivable | - | - | - | - | - |
| Inventory | - | - | - | - | - |
| Intergovernmental receivable | 7,797 | - | 188,686 | - | 185,560 |
| Total assets | 529,344 | 25,501 | 650,877 | 1,338 | 348,618 |
| LIABILITIES: | | | | | |
| Accounts payable | 20,281 | 17,027 | 33,983 | - | 64,693 |
| Deferred revenue | - | - | 48,407 | - | - |
| Accrued wages payable | 1,847 | - | 1,376 | - | 2,466 |
| Total liabilities | 22,128 | 17,027 | 83,766 | - | 67,159 |
| FUND BALANCES: | | | | | |
| Unreserved - designated for subsequent years | 507,216 | 8,474 | 567,111 | 1,338 | 281,459 |
| Unreserved | - | - | - | - | - |
| Total fund balances | 507,216 | 8,474 | 567,111 | 1,338 | 281,459 |
| Total liabilities and fund balances | \$ 529,344 | \$ 25,501 | \$ 650,877 | \$ 1,338 | \$ 348,618 |

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

CITY OF FARMINGTON, NEW MEXICO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

| | Special Revenue | | | |
|---|--|---------------------------------|-------------------------------|--------------------------------------|
| | Law Enforcement Block Grant | State Fire Grant | Penalty Assessment | Total Special Revenue |
| ASSETS: | | | | |
| Pooled cash and investments | \$ - | \$ - | \$ 11,364 | \$ 7,240,520 |
| Accounts receivable | - | - | - | - |
| Inventory | - | - | - | 76,012 |
| Intergovernmental receivable | 50,713 | - | - | 2,359,459 |
| Total assets | 50,713 | - | 11,364 | 9,675,991 |
| LIABILITIES: | | | | |
| Accounts payable | - | - | 11,364 | 370,314 |
| Deferred revenue | - | - | - | 94,986 |
| Accrued wages payable | - | - | - | 11,543 |
| Total liabilities | - | - | 11,364 | 476,843 |
| FUND BALANCES: | | | | |
| Unreserved - designated for subsequent years | 50,713 | - | - | 9,199,148 |
| Unreserved | - | - | - | - |
| Total fund balances | 50,713 | - | - | 9,199,148 |
| Total liabilities and fund balances | \$ 50,713 | \$ - | \$ 11,364 | \$ 9,675,991 |

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

CITY OF FARMINGTON, NEW MEXICO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

Capital Projects

| | <u>Community Development Grant Projects</u> | <u>GRT Bond Proceeds Projects</u> | <u>Library Constuction Project</u> | <u>Fire GRT Bond Projects</u> | <u>Total Capital Projects</u> | <u>Total Nonmajor Governmental Funds</u> |
|---|---|---|--|---------------------------------------|---------------------------------------|--|
| ASSETS: | | | | | | |
| Pooled cash and investments | \$ 821,743 | \$ - | \$ 49,295 | \$ 617,084 | \$ 1,488,122 | \$ 8,728,642 |
| Accounts Receivable | - | - | 36,414 | - | 36,414 | 36,414 |
| Inventory | - | - | - | - | - | 76,012 |
| Intergovernmental receivable | 100,702 | - | - | - | 100,702 | 2,460,161 |
| Total assets | <u>922,445</u> | <u>-</u> | <u>85,709</u> | <u>617,084</u> | <u>1,625,238</u> | <u>11,301,229</u> |
| LIABILITIES: | | | | | | |
| Accounts payable | 70,255 | - | 85,709 | 553,885 | 709,849 | 1,080,163 |
| Deferred revenue | - | - | - | - | - | 94,986 |
| Accrued wages payable | 969 | - | - | - | 969 | 12,512 |
| Total liabilities | <u>71,224</u> | <u>-</u> | <u>85,709</u> | <u>553,885</u> | <u>710,818</u> | <u>1,187,661</u> |
| FUND BALANCES: | | | | | | |
| Unreserved - designated for special revenue purposes | - | - | - | - | - | 9,199,148 |
| Unreserved - designated for capital projects | 851,221 | - | - | 63,199 | 914,420 | 914,420 |
| Total fund balances | <u>851,221</u> | <u>-</u> | <u>-</u> | <u>63,199</u> | <u>914,420</u> | <u>10,113,568</u> |
| Total liabilities and fund balances | <u>\$ 922,445</u> | <u>\$ -</u> | <u>\$ 85,709</u> | <u>\$ 617,084</u> | <u>\$ 1,625,238</u> | <u>\$ 11,301,229</u> |

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

CITY OF FARMINGTON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

Special Revenue

| | Gross Receipts Tax Streets | Gross Receipts Tax Parks and Public Works | Park Development Fees | Recreation | Library Gifts and Grants |
|--|---|--|--------------------------------------|-------------------|---|
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Gross receipts tax | \$ 4,705,007 | \$ 5,238,502 | \$ - | \$ - | - |
| Gasoline taxes | 931,574 | - | - | - | - |
| Cigarette taxes | - | - | - | 42,316 | - |
| Lodger's taxes | - | - | - | - | - |
| Licenses and permits | - | - | 102,926 | - | - |
| Intergovernmental | - | - | - | - | 255,180 |
| Charges for services | - | - | - | - | - |
| Fines | - | - | - | - | - |
| Investment earnings | 79,019 | 48,162 | 10,252 | - | 14,737 |
| Donations | - | - | - | - | 68,799 |
| Miscellaneous | - | 20,000 | - | - | - |
| Total revenues | <u>5,715,600</u> | <u>5,306,664</u> | <u>113,178</u> | <u>42,316</u> | <u>338,716</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Police operations | - | - | - | - | - |
| Fire operations | - | - | - | - | - |
| Parks, recreation and cultural affairs | - | 2,487,739 | 1,170 | 42,316 | 359,281 |
| Community development | 2,696,758 | 2,665,635 | - | - | - |
| Capital outlay: | | | | | |
| Highways and streets | 753,393 | - | - | - | - |
| Total expenditures | <u>3,450,151</u> | <u>5,153,374</u> | <u>1,170</u> | <u>42,316</u> | <u>359,281</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>2,265,449</u> | <u>153,290</u> | <u>112,008</u> | <u>-</u> | <u>(20,565)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | (511,500) | (74,000) | - | - | - |
| Total other financing sources (uses) | <u>(511,500)</u> | <u>(74,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 1,753,949 | 79,290 | 112,008 | - | (20,565) |
| Fund balances-beginning | 2,018,352 | 3,154,334 | 235,946 | - | 449,523 |
| Fund balances-ending | <u>\$ 3,772,301</u> | <u>\$ 3,233,624</u> | <u>\$ 347,954</u> | <u>\$ -</u> | <u>\$ 428,958</u> |

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

CITY OF FARMINGTON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

Special Revenue

| | Parks/ Recreation Gifts and Grants | Museum Gifts and Grants | Lodgers Tax | State Police Protection Grant | Region II Narcotics Grant |
|--|---|--|------------------------|--|--|
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Gross receipts tax | \$ - | \$ - | \$ - | \$ - | - |
| Gasoline taxes | - | - | - | - | - |
| Cigarette taxes | - | - | - | - | - |
| Lodger's taxes | - | - | 968,134 | - | - |
| Licenses and permits | - | - | - | - | - |
| Intergovernmental | 143,793 | - | - | 93,000 | 327,237 |
| Charges for services | - | 65,419 | - | - | - |
| Fines | - | - | - | - | - |
| Investment earnings | 18,022 | 629 | 16,314 | - | - |
| Donations | 222,486 | 44,550 | - | - | - |
| Miscellaneous | 97,360 | - | - | - | 8,674 |
| Total revenues | <u>481,661</u> | <u>110,598</u> | <u>984,448</u> | <u>93,000</u> | <u>335,911</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Police operations | - | - | - | 91,781 | 342,710 |
| Fire operations | - | - | - | - | - |
| Parks, recreation and cultural affairs | 366,593 | 106,415 | 812,805 | - | - |
| Community development | - | - | - | - | - |
| Capital outlay: | | | | | |
| Highways and streets | - | - | - | - | - |
| Total expenditures | <u>366,593</u> | <u>106,415</u> | <u>812,805</u> | <u>91,781</u> | <u>342,710</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>115,068</u> | <u>4,183</u> | <u>171,643</u> | <u>1,219</u> | <u>(6,799)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | - | - | - | - | 30,000 |
| Transfers out | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>30,000</u> |
| Net change in fund balances | 115,068 | 4,183 | 171,643 | 1,219 | 23,201 |
| Fund balances-beginning | 392,148 | 4,291 | 395,468 | 119 | 258,258 |
| Fund balances-ending | <u>\$ 507,216</u> | <u>\$ 8,474</u> | <u>\$ 567,111</u> | <u>\$ 1,338</u> | <u>\$ 281,459</u> |

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

CITY OF FARMINGTON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

| | <u>Special Revenue</u> | | | |
|--|--|---------------------------------|-------------------------------|--------------------------------------|
| | <u>Law Enforcement Block Grant</u> | <u>State Fire Grant</u> | <u>Penalty Assessment</u> | <u>Total Special Revenue</u> |
| REVENUES: | | | | |
| Taxes: | | | | |
| Gross receipts tax | \$ - | \$ - | \$ - | \$ 9,943,509 |
| Gasoline taxes | - | - | - | 931,574 |
| Cigarette taxes | - | - | - | 42,316 |
| Lodger's taxes | - | - | - | 968,134 |
| Licenses and permits | - | - | - | 102,926 |
| Intergovernmental | 93,499 | 252,227 | - | 1,164,936 |
| Charges for services | - | - | - | 65,419 |
| Fines | - | - | 148,543 | 148,543 |
| Investment earnings | 385 | 5,377 | - | 192,897 |
| Donations | - | - | - | 335,835 |
| Miscellaneous | - | - | - | 126,034 |
| Total revenues | <u>93,884</u> | <u>257,604</u> | <u>148,543</u> | <u>14,022,123</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Police operations | 42,792 | - | 148,543 | 625,826 |
| Fire operations | - | 164,733 | - | 164,733 |
| Parks, recreation and cultural affairs | - | - | - | 4,176,319 |
| Community development | - | - | - | 5,362,393 |
| Capital outlay: | | | | |
| Highways and streets | - | - | - | 753,393 |
| Total expenditures | <u>42,792</u> | <u>164,733</u> | <u>148,543</u> | <u>11,082,664</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>51,092</u> | <u>92,871</u> | <u>-</u> | <u>2,939,459</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | - | - | - | 30,000 |
| Transfers out | (379) | (137,000) | - | (722,879) |
| Total other financing sources (uses) | <u>(379)</u> | <u>(137,000)</u> | <u>-</u> | <u>(692,879)</u> |
| Net change in fund balances | 50,713 | (44,129) | - | 2,246,580 |
| Fund balances-beginning | - | 44,129 | - | 6,952,568 |
| Fund balances-ending | <u>\$ 50,713</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,199,148</u> |

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

CITY OF FARMINGTON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

| | Capital Projects | | | | | |
|--|---|---|--|---------------------------------------|---------------------------------------|--|
| | Community Development Grant Projects | GRT Bond Proceeds Projects | Library Constuction Project | Fire GRT Bond Projects | Total Capital Projects | Total Nonmajor Governmental Funds |
| REVENUES: | | | | | | |
| Taxes: | | | | | | |
| Gross receipts tax | \$ - | \$ - | \$ - | \$ - | \$ - | 9,943,509 |
| Gasoline taxes | - | - | - | - | - | 931,574 |
| Cigarette taxes | - | - | - | - | - | 42,316 |
| Lodger's taxes | - | - | - | - | - | 968,134 |
| Licenses and permits | - | - | - | - | - | 102,926 |
| Intergovernmental | 297,920 | - | - | - | 297,920 | 1,462,856 |
| Charges for services | - | - | - | - | - | 65,419 |
| Fines | - | - | - | - | - | 148,543 |
| Investment earnings | 24,424 | 42,092 | 2,794 | 80,471 | 149,781 | 342,678 |
| Donations | - | - | - | - | - | 335,835 |
| Miscellaneous | - | - | - | - | - | 126,034 |
| Total revenues | <u>322,344</u> | <u>42,092</u> | <u>2,794</u> | <u>80,471</u> | <u>447,701</u> | <u>14,469,824</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Police operations | - | - | - | - | - | 625,826 |
| Fire operations | - | - | - | - | - | 164,733 |
| Parks, recreation and cultural affairs | - | - | 113,426 | - | 113,426 | 4,289,745 |
| Community development | - | - | - | - | - | 5,362,393 |
| Capital outlay: | | | | | | |
| Highways and streets | 418,569 | 1,299,298 | - | - | 1,717,867 | 2,471,260 |
| Public safety | - | - | - | 3,913,252 | 3,913,252 | 3,913,252 |
| Total expenditures | <u>418,569</u> | <u>1,299,298</u> | <u>113,426</u> | <u>3,913,252</u> | <u>5,744,545</u> | <u>16,827,209</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(96,225)</u> | <u>(1,257,206)</u> | <u>(110,632)</u> | <u>(3,832,781)</u> | <u>(5,296,844)</u> | <u>(2,357,385)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Transfers in | 511,500 | - | - | 237,000 | 748,500 | 778,500 |
| Transfers out | - | - | - | - | - | (722,879) |
| Total other financing sources (uses) | <u>511,500</u> | <u>-</u> | <u>-</u> | <u>237,000</u> | <u>748,500</u> | <u>55,621</u> |
| Net change in fund balances | 415,275 | (1,257,206) | (110,632) | (3,595,781) | (4,548,344) | (2,301,764) |
| Fund balances-beginning | 435,946 | 1,257,206 | 110,632 | 3,658,980 | 5,462,764 | 12,415,332 |
| Fund balances-ending | <u>\$ 851,221</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 63,199</u> | <u>\$ 914,420</u> | <u>\$ 10,113,568</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Gross Receipts Tax Streets Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|--------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Gross receipts taxes | \$ 4,044,526 | \$ 4,626,867 | \$ 4,705,007 | \$ 78,140 |
| Gasoline taxes | 950,000 | 950,000 | 931,574 | (18,426) |
| Investment earnings | 18,000 | 18,000 | 79,019 | 61,019 |
| Miscellaneous | 1,500 | 1,500 | - | (1,500) |
| Total revenues | 5,014,026 | 5,596,367 | 5,715,600 | 119,233 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Community development | 3,777,772 | 4,058,468 | 2,696,758 | 1,361,710 |
| Capital Outlay: | | | | |
| Highways and streets | 500,000 | 1,862,047 | 753,393 | 1,108,654 |
| Total expenditures | 4,277,772 | 5,920,515 | 3,450,151 | 2,470,364 |
| Excess (deficiency) of revenues over (under) expenditures | 736,254 | (324,148) | 2,265,449 | 2,589,597 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out | (511,500) | (511,500) | (511,500) | - |
| Net change in fund balances | 224,754 | (835,648) | 1,753,949 | 2,589,597 |
| Fund balances-beginning | 2,018,352 | 2,018,352 | 2,018,352 | - |
| Fund balances-ending | \$ 2,243,106 | \$ 1,182,704 | \$ 3,772,301 | \$ 2,589,597 |

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

CITY OF FARMINGTON, NEW MEXICO
Gross Receipts Tax Parks and Public Works Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Gross receipts taxes | \$ 4,578,026 | \$ 5,160,367 | \$ 5,238,502 | \$ 78,135 |
| Intergovernmental | - | 100,000 | - | (100,000) |
| Investment earnings | 41,500 | 41,500 | 48,162 | 6,662 |
| Miscellaneous | - | - | 20,000 | 20,000 |
| Total revenues | <u>4,619,526</u> | <u>5,301,867</u> | <u>5,306,664</u> | <u>4,797</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, Recreation and Cultural Affairs | 2,235,763 | 2,882,683 | 2,487,739 | 394,944 |
| Community development | 2,630,380 | 3,858,026 | 2,665,635 | 1,192,391 |
| Total expenditures | <u>4,866,143</u> | <u>6,740,709</u> | <u>5,153,374</u> | <u>1,587,335</u> |
| Excess (deficiency) of revenues over (under) expenditures | (246,617) | (1,438,842) | 153,290 | 1,592,132 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out | <u>(74,000)</u> | <u>(74,000)</u> | <u>(74,000)</u> | <u>-</u> |
| Net change in fund balances | (320,617) | (1,512,842) | 79,290 | 1,592,132 |
| Fund balances-beginning | 3,154,334 | 3,154,334 | 3,154,334 | - |
| Fund balances-ending | <u>\$ 2,833,717</u> | <u>\$ 1,641,492</u> | <u>\$ 3,233,624</u> | <u>\$ 1,592,132</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Park Development Fees Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Licenses and permits | \$ 35,000 | \$ 35,000 | \$ 102,926 | \$ 67,926 |
| Investment earnings | 4,000 | 4,000 | 10,252 | 6,252 |
| Total revenues | <u>39,000</u> | <u>39,000</u> | <u>113,178</u> | <u>74,178</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | <u>60,000</u> | <u>60,000</u> | <u>1,170</u> | <u>58,830</u> |
| Excess (deficiency) of revenues over (under) expenditures | (21,000) | (21,000) | 112,008 | 133,008 |
| Fund balances-beginning | <u>235,946</u> | <u>235,946</u> | <u>235,946</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 214,946</u> | <u>\$ 214,946</u> | <u>\$ 347,954</u> | <u>\$ 133,008</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Recreation Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Cigarette taxes | \$ 51,500 | \$ 51,500 | \$ 42,316 | \$ (9,184) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | 51,500 | 51,500 | 42,316 | 9,184 |
| Excess (deficiency) of revenues over (under) expenditures | - | - | - | - |
| Fund balances-beginning | - | - | - | - |
| Fund balances-ending | \$ - | \$ - | \$ - | \$ - |

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

CITY OF FARMINGTON, NEW MEXICO
Library Gifts and Grants Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 130,000 | \$ 260,000 | \$ 255,180 | \$ (4,820) |
| Investment earnings | 1,800 | 1,800 | 14,737 | 12,937 |
| Donations | 15,000 | 15,000 | 68,799 | 53,799 |
| Total revenues | 146,800 | 276,800 | 338,716 | 61,916 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | 200,000 | 381,188 | 359,281 | 21,907 |
| Excess (deficiency) of revenues over (under) expenditures | (53,200) | (104,388) | (20,565) | 83,823 |
| Fund balances-beginning | 449,523 | 449,523 | 449,523 | - |
| Fund balances-ending | \$ 396,323 | \$ 345,135 | \$ 428,958 | \$ 83,823 |

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

CITY OF FARMINGTON, NEW MEXICO
Parks/Recreation Gifts and Grant Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 24,500 | \$ 24,500 | \$ 143,793 | \$ 119,293 |
| Investment earnings | 9,000 | 9,000 | 18,022 | 9,022 |
| Donations | 130,200 | 130,200 | 222,486 | 92,286 |
| Miscellaneous | 115,000 | 115,000 | 97,360 | (17,640) |
| Total revenues | 278,700 | 278,700 | 481,661 | 202,961 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | 272,557 | 544,089 | 366,593 | 177,496 |
| Excess (deficiency) of revenues over (under) expenditures | 6,143 | (265,389) | 115,068 | 380,457 |
| Fund balances-beginning | 392,148 | 392,148 | 392,148 | - |
| Fund balances-ending | \$ 398,291 | \$ 126,759 | \$ 507,216 | \$ 380,457 |

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

CITY OF FARMINGTON, NEW MEXICO
Museum Gifts and Grants Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 12,000 | \$ 12,000 | \$ - | \$ (12,000) |
| Charges for Services | 78,000 | 99,750 | 65,419 | (34,331) |
| Investment earnings | 600 | 600 | 629 | 29 |
| Donations | 29,200 | 38,140 | 44,550 | 6,410 |
| Total revenues | 119,800 | 150,490 | 110,598 | (39,892) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | 53,520 | 127,810 | 106,415 | 21,395 |
| Excess (deficiency) of revenues over (under) expenditures | 66,280 | 22,680 | 4,183 | (18,497) |
| Fund balances-beginning | 4,291 | 4,291 | 4,291 | - |
| Fund balances-ending | \$ 70,571 | \$ 26,971 | \$ 8,474 | \$ (18,497) |

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

CITY OF FARMINGTON, NEW MEXICO
Lodgers Tax Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Lodger's taxes | \$ 925,000 | \$ 925,000 | \$ 968,134 | \$ 43,134 |
| Investment earnings | 7,500 | 7,500 | 16,314 | 8,814 |
| Total revenues | <u>932,500</u> | <u>932,500</u> | <u>984,448</u> | <u>51,948</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | <u>880,706</u> | <u>957,685</u> | <u>812,805</u> | <u>144,880</u> |
| Excess (deficiency) of revenues over (under) expenditures | 51,794 | (25,185) | 171,643 | 196,828 |
| Fund balances-beginning | <u>395,468</u> | <u>395,468</u> | <u>395,468</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 447,262</u> | <u>\$ 370,283</u> | <u>\$ 567,111</u> | <u>\$ 196,828</u> |

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

CITY OF FARMINGTON, NEW MEXICO
State Police Protection Grant Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 93,000 | \$ 93,000 | \$ 93,000 | \$ - |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Police operations | 92,400 | 93,119 | 91,781 | 1,338 |
| Excess (deficiency) of revenues over (under) expenditures | 600 | (119) | 1,219 | 1,338 |
| Fund balances-beginning | 119 | 119 | 119 | - |
| Fund balances-ending | <u>\$ 719</u> | <u>\$ -</u> | <u>\$ 1,338</u> | <u>\$ 1,338</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Region II Narcotics Grant Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 294,675 | \$ 394,675 | \$ 327,237 | \$ (67,438) |
| Miscellaneous | 1,500 | 1,500 | 8,674 | 7,174 |
| | <u>296,175</u> | <u>396,175</u> | <u>335,911</u> | <u>(60,264)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public safety | 413,894 | 459,622 | 342,710 | 116,912 |
| Excess (deficiency) of revenues over (under) expenditures | (117,719) | (63,447) | (6,799) | 56,648 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 30,000 | 30,000 | 30,000 | - |
| Net change in fund balances | (87,719) | (33,447) | 23,201 | 56,648 |
| Fund balances-beginning | 258,258 | 258,258 | 258,258 | - |
| Fund balances-ending | <u>\$ 170,539</u> | <u>\$ 224,811</u> | <u>\$ 281,459</u> | <u>\$ 56,648</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Law Enforcement Block Grant Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-----------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 32,000 | \$ 42,500 | \$ 93,499 | \$ 50,999 |
| Investment earnings | - | - | 385 | 385 |
| Total revenues | <u>32,000</u> | <u>42,500</u> | <u>93,884</u> | <u>51,384</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public safety | <u>33,000</u> | <u>43,500</u> | <u>42,792</u> | <u>708</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,000)</u> | <u>(1,000)</u> | <u>51,092</u> | <u>52,092</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 3,200 | 3,200 | - | (3,200) |
| Transfers out | <u>-</u> | <u>-</u> | <u>(379)</u> | <u>(379)</u> |
| Total Other Financing Sources | <u>3,200</u> | <u>3,200</u> | <u>(379)</u> | <u>(3,579)</u> |
| Net change in fund balances | 2,200 | 2,200 | 50,713 | 48,513 |
| Fund balances-beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 2,200</u> | <u>\$ 2,200</u> | <u>\$ 50,713</u> | <u>\$ 48,513</u> |

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

CITY OF FARMINGTON, NEW MEXICO
State Fire Grant Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 154,390 | \$ 254,390 | \$ 252,227 | \$ (2,163) |
| Investment earnings | 3,000 | 5,400 | 5,377 | (23) |
| Total revenues | <u>157,390</u> | <u>259,790</u> | <u>257,604</u> | <u>(2,186)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Fire operations | <u>44,390</u> | <u>166,919</u> | <u>164,733</u> | <u>2,186</u> |
| Excess (deficiency) of revenues over (under) expenditures | 113,000 | 92,871 | 92,871 | - |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out | <u>(110,000)</u> | <u>(137,000)</u> | <u>(137,000)</u> | <u>-</u> |
| Net change in fund balances | 3,000 | (44,129) | (44,129) | - |
| Fund balances-beginning | <u>44,129</u> | <u>44,129</u> | <u>44,129</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 47,129</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Penalty Assessment Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Fines | \$ 190,000 | \$ 190,000 | \$ 148,543 | \$ (41,457) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public safety | 190,000 | 190,000 | 148,543 | 41,457 |
| Excess (deficiency) of revenues over (under) expenditures | - | - | - | - |
| Fund balances-beginning | - | - | - | - |
| Fund balances-ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Community Development Grant Projects Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 2,631,226 | \$ 2,631,226 | \$ 297,920 | \$ (2,333,306) |
| Investment earnings | 3,500 | 3,500 | 24,424 | 20,924 |
| Total revenues | <u>2,634,726</u> | <u>2,634,726</u> | <u>322,344</u> | <u>(2,312,382)</u> |
| EXPENDITURES: | | | | |
| Capital Outlay: | | | | |
| Highways and Streets | <u>3,142,726</u> | <u>3,260,726</u> | <u>418,569</u> | <u>2,842,157</u> |
| Excess (deficiency) of revenues over (under) expenditures | (508,000) | (626,000) | (96,225) | 529,775 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | <u>511,500</u> | <u>511,500</u> | <u>511,500</u> | <u>-</u> |
| Net change in fund balances | 3,500 | (114,500) | 415,275 | 529,775 |
| Fund balances-beginning | <u>435,946</u> | <u>435,946</u> | <u>435,946</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 439,446</u> | <u>\$ 321,446</u> | <u>\$ 851,221</u> | <u>\$ 529,775</u> |

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

CITY OF FARMINGTON, NEW MEXICO
GRT Bond Proceeds Projects Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Investment earnings | \$ 42,500 | \$ 42,500 | \$ 42,092 | \$ (408) |
| EXPENDITURES: | | | | |
| Capital Outlay: | | | | |
| Highways and Streets | 2,192,500 | 1,388,006 | 1,299,298 | 88,708 |
| Excess (deficiency) of revenues over (under) expenditures | (2,150,000) | (1,345,506) | (1,257,206) | 88,300 |
| Fund balances-beginning | 1,257,206 | 1,257,206 | 1,257,206 | - |
| Fund balances-ending | <u>\$ (892,794)</u> | <u>\$ (88,300)</u> | <u>\$ -</u> | <u>\$ 88,300</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Library Construction Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Investment earnings | \$ 2,500 | \$ 2,500 | \$ 2,794 | \$ 294 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parks, recreation and cultural affairs | 352,500 | 151,887 | 113,426 | 38,461 |
| Excess (deficiency) of revenues over (under) expenditures | (350,000) | (149,387) | (110,632) | 38,755 |
| Fund balances-beginning | 110,632 | 110,632 | 110,632 | - |
| Fund balances-ending | <u>\$ (239,368)</u> | <u>\$ (38,755)</u> | <u>\$ -</u> | <u>\$ 38,755</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Fire GRT Bond Projects Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Investment earnings | \$ 120,000 | \$ 120,000 | \$ 80,471 | \$ (39,529) |
| EXPENDITURES: | | | | |
| Capital Outlay: | | | | |
| Public Safety | 5,620,000 | 4,985,857 | 3,913,252 | 1,072,605 |
| Excess (deficiency) of revenues over (under) expenditures | (5,500,000) | (4,865,857) | (3,832,781) | 1,033,076 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | - | 237,000 | 237,000 | - |
| Net change in fund balances | (5,500,000) | (4,628,857) | (3,595,781) | 1,033,076 |
| Fund balances-beginning | 3,658,980 | 3,658,980 | 3,658,980 | - |
| Fund balances-ending | <u>\$ (1,841,020)</u> | <u>\$ (969,877)</u> | <u>\$ 63,199</u> | <u>\$ 1,033,076</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Gross receipts taxes | \$ 1,530,554 | \$ 1,530,554 | \$ 1,530,042 | \$ (512) |
| Investment earnings | 16,000 | 16,000 | 22,381 | 6,381 |
| Total revenues | <u>1,546,554</u> | <u>1,546,554</u> | <u>1,552,423</u> | <u>5,869</u> |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| Principal | 1,965,000 | 1,060,000 | 1,060,000 | - |
| Interest | 421,480 | 588,525 | 588,521 | 4 |
| Total expenditures | <u>2,386,480</u> | <u>1,648,525</u> | <u>1,648,521</u> | <u>4</u> |
| Excess (deficiency) of revenues over (under) expenditures | (839,926) | (101,971) | (96,098) | 5,873 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | <u>110,000</u> | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| Net change in fund balances | (729,926) | (1,971) | 3,902 | 5,873 |
| Fund balances-beginning | <u>283,833</u> | <u>283,833</u> | <u>283,833</u> | <u>-</u> |
| Fund balances-ending | <u>\$ (446,093)</u> | <u>\$ 281,862</u> | <u>\$ 287,735</u> | <u>\$ 5,873</u> |

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

Internal Service Fund

Internal Service Fund

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

Health Insurance Fund - This fund is used to account for the City's self insurance for employee health insurance claims.

CITY OF FARMINGTON, NEW MEXICO
Health Insurance
Statement of Net Assets
June 30, 2006

| | <u>Health Insurance</u> |
|-----------------------------|-----------------------------|
| ASSETS: | |
| Current assets: | |
| Pooled cash and investments | \$ 1,507 |
| Accounts receivable | 473,888 |
| Total assets | <u>475,395</u> |
| | |
| LIABILITIES: | |
| Current liabilities: | |
| Accrued claims payable | 502,427 |
| Due to other funds | 300,000 |
| Total liabilities | <u>802,427</u> |
| | |
| NET ASSETS: | |
| Invested in capital assets | - |
| Unrestricted | (327,032) |
| Total net assets | <u>\$ (327,032)</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Health Insurance
Schedule of Revenues, Expenses and Changes in Fund Net Assets
June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating revenues: | | | | |
| Charges for services | \$ 4,684,734 | \$ 4,684,734 | \$ 4,384,248 | \$ (300,486) |
| Operating expenses: | | | | |
| Costs of services | 4,689,034 | 5,439,034 | 4,561,636 | 877,398 |
| Operating income (loss) | <u>(4,300)</u> | <u>(754,300)</u> | <u>(177,388)</u> | <u>576,912</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | 4,300 | 4,300 | - | (4,300) |
| Income (loss) before transfers | <u>-</u> | <u>(750,000)</u> | <u>(177,388)</u> | <u>572,612</u> |
| Transfers in | - | 750,000 | 750,000 | - |
| Change in net assets | <u>-</u> | <u>-</u> | <u>572,612</u> | <u>572,612</u> |
| Total net assets-beginning | <u>(899,644)</u> | <u>(899,644)</u> | <u>(899,644)</u> | <u>-</u> |
| Total net assets-ending | <u>\$ (899,644)</u> | <u>\$ (899,644)</u> | <u>\$ (327,032)</u> | <u>\$ 572,612</u> |

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

CITY OF FARMINGTON, NEW MEXICO
Health Insurance
Statement of Cash Flows
For the Year Ended June 30, 2006

| | <u>Health Insurance</u> |
|--|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers/users | \$ 3,910,360 |
| Payments to suppliers | <u>(4,865,016)</u> |
| Net cash provided by operating activities | <u>(954,656)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfer to other funds | 206,163 |
| Transfer from other funds | <u>750,000</u> |
| Net cash provided (used) by capital and related financing activities | <u>956,163</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends received | <u>-</u> |
| Net increase in cash and cash equivalents | 1,507 |
| Cash and cash equivalents, July 1 | <u>-</u> |
| Cash and cash equivalents, June 30 | <u><u>\$ 1,507</u></u> |
| | |
| Reconciliation of operating income to net cash provided (used) by operating activities: | |
| Operating income (loss) | \$ <u>(177,388)</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Increase in accounts receivable | (473,888) |
| (Decrease) in accounts payable | (87,625) |
| (Decrease) in accrued claims payable | <u>(215,755)</u> |
| Total adjustments | <u>(777,268)</u> |
| Net cash provided by operating activities | <u><u>\$ (954,656)</u></u> |

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

Enterprise Funds

CITY OF FARMINGTON, NEW MEXICO
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual
Non-GAAP Budgetary Basis
Electric Fund
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-----------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Electric | \$ 88,960,660 | \$ 88,960,660 | \$ 89,356,434 | \$ 395,774 |
| Other revenues | <u>420,125</u> | <u>420,125</u> | <u>445,424</u> | <u>25,299</u> |
| Total operating revenues | <u>89,380,785</u> | <u>89,380,785</u> | <u>89,801,858</u> | <u>421,073</u> |
| Operating expenses: | | | | |
| Salaries and fringe benefits | 8,226,393 | 8,226,393 | 8,167,772 | 58,621 |
| Purchased power, fuel and chemicals | 41,198,225 | 41,198,225 | 40,895,737 | 302,488 |
| Other operating expenses | 13,522,718 | 13,845,412 | 7,590,489 | 6,254,923 |
| Depreciation and amortization | 8,761,000 | 8,761,000 | 7,222,088 | 1,538,912 |
| Capital outlay | <u>23,747,200</u> | <u>27,648,751</u> | <u>18,443,094</u> | <u>9,205,657</u> |
| Total operating expenses | <u>95,455,536</u> | <u>99,679,781</u> | <u>82,319,180</u> | <u>17,360,601</u> |
| Operating income | <u>(6,074,751)</u> | <u>(10,298,996)</u> | <u>7,482,678</u> | <u>17,781,674</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | 417,644 | 417,644 | 1,118,186 | 700,542 |
| Interest expense | (1,673,233) | (1,673,233) | (1,420,637) | 252,596 |
| Other fiscal charges | 143,731 | 143,731 | 143,731 | - |
| Principal on debt service | <u>(3,812,053)</u> | <u>(3,812,053)</u> | <u>(3,812,053)</u> | <u>-</u> |
| Total nonoperating revenues (expenses) | <u>(4,923,911)</u> | <u>(4,923,911)</u> | <u>(3,970,773)</u> | <u>953,138</u> |
| Income (loss) before operating transfers | (10,998,662) | (15,222,907) | 3,511,905 | 18,734,812 |
| Capital contributions | - | - | 917,311 | 917,311 |
| Transfers out | <u>(1,550,584)</u> | <u>(1,550,584)</u> | <u>(1,460,776)</u> | <u>89,808</u> |
| Change in net assets | (12,549,246) | (16,773,491) | <u>2,968,440</u> | <u>\$ 19,741,931</u> |
| ADJUSTMENTS TO GAAP | | | | |
| Capital outlay capitalized | | | 18,443,094 | |
| Principal on debt service | | | <u>3,812,053</u> | |
| | | | <u>22,255,147</u> | |
| GAAP BASIS CHANGE IN NET ASSETS | | | <u>25,223,587</u> | |
| Total net assets-beginning | <u>187,621,127</u> | <u>187,621,127</u> | <u>187,621,127</u> | |
| Total net assets-ending | <u>\$ 175,071,881</u> | <u>\$ 170,847,636</u> | <u>\$ 212,844,714</u> | |

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

CITY OF FARMINGTON, NEW MEXICO
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual
Non-GAAP Budgetary Basis
Water Fund
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|---------------|-------------------|---|
| | Original | Final | | |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Water | \$ 7,759,305 | \$ 7,989,305 | \$ 7,960,059 | \$ (29,246) |
| Other revenues | 1,000 | 1,000 | 31,681 | 30,681 |
| Total operating revenues | 7,760,305 | 7,990,305 | 7,991,740 | 1,435 |
| Operating expenses: | | | | |
| Salaries and fringe benefits | 541,922 | 541,922 | 413,759 | 128,163 |
| Other operating expenses | 4,763,473 | 5,067,376 | 4,692,905 | 374,471 |
| Capital outlay | 1,108,000 | 1,178,500 | 924,187 | 254,313 |
| Total operating expenses | 6,413,395 | 6,787,798 | 6,030,851 | 756,947 |
| Operating income | 1,346,910 | 1,202,507 | 1,960,889 | 758,382 |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | 81,012 | 81,012 | 105,335 | 24,323 |
| Interest expense | (345,806) | (345,806) | (308,241) | 37,565 |
| Other fiscal charges | 31,015 | 31,015 | 31,015 | - |
| Principal on debt service | (822,591) | (822,591) | (822,591) | - |
| Total nonoperating revenues (expenses) | (1,056,370) | (1,056,370) | (994,482) | 61,888 |
| Income (loss) before operating transfers | 290,540 | 146,137 | 966,407 | 820,270 |
| Capital contributions | - | - | 10,181 | 10,181 |
| Transfers out | (382,500) | (382,500) | (398,489) | (15,989) |
| Change in net assets | (91,960) | (236,363) | 578,099 | \$ 814,462 |
| ADJUSTMENTS TO GAAP | | | | |
| Depreciation and amortization | | | (1,608,687) | |
| Capital outlay capitalized | | | 924,187 | |
| Principal on debt service | | | 822,591 | |
| | | | 138,091 | |
| GAAP BASIS CHANGE IN NET ASSETS | | | 716,190 | |
| Total net assets-beginning | 21,509,928 | 21,509,928 | 21,509,928 | |
| Total net assets-ending | \$ 21,417,968 | \$ 21,273,565 | \$ 22,226,118 | |

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

CITY OF FARMINGTON, NEW MEXICO
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual
Non-GAAP Budgetary Basis
Wastewater Fund
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|----------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Wastewater | \$ 3,769,810 | \$ 3,769,810 | \$ 3,755,825 | \$ (13,985) |
| Environmental tax | 1,114,736 | 1,260,321 | 1,309,633 | 49,312 |
| Other revenues | 4,000 | 4,000 | 6,493 | 2,493 |
| Total operating revenues | <u>4,888,546</u> | <u>5,034,131</u> | <u>5,071,951</u> | <u>37,820</u> |
| Operating expenses: | | | | |
| Salaries and fringe benefits | 242,216 | 242,216 | 187,461 | 54,755 |
| Other operating expenses | 3,221,722 | 3,296,714 | 2,926,530 | 370,184 |
| Capital outlay | 615,500 | 891,791 | 598,818 | 292,973 |
| Total operating expenses | <u>4,079,438</u> | <u>4,430,721</u> | <u>3,712,809</u> | <u>717,912</u> |
| Operating income | <u>809,108</u> | <u>603,410</u> | <u>1,359,142</u> | <u>755,732</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | 71,351 | 71,351 | 197,755 | 126,404 |
| Interest expense | (466,770) | (466,770) | (435,209) | 31,561 |
| Other fiscal charges | 5,103 | 5,103 | 5,103 | - |
| Principal on debt service | (645,023) | (645,023) | (135,356) | 509,667 |
| Total nonoperating revenues (expenses) | <u>(1,035,339)</u> | <u>(1,035,339)</u> | <u>(367,707)</u> | <u>667,632</u> |
| Income (loss) before operating transfers | (226,231) | (431,929) | 991,435 | 1,423,364 |
| Transfers out | <u>(183,800)</u> | <u>(183,800)</u> | <u>(187,959)</u> | <u>(4,159)</u> |
| Change in net assets | (410,031) | (615,729) | <u>803,476</u> | <u>\$ 1,419,205</u> |
| ADJUSTMENTS TO GAAP | | | | |
| Depreciation and amortization | | | (1,146,288) | |
| Capital outlay capitalized | | | 598,818 | |
| Principal on debt service | | | 135,356 | |
| | | | <u>(412,114)</u> | |
| GAAP BASIS CHANGE IN NET ASSETS | | | 391,362 | |
| Total net assets-beginning | 15,068,774 | 15,068,774 | 15,068,774 | |
| Total net assets-ending | <u>\$ 14,658,743</u> | <u>\$ 14,453,045</u> | <u>\$ 15,460,136</u> | |

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

CITY OF FARMINGTON, NEW MEXICO
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual
Non-GAAP Budgetary Basis
Sanitation Fund
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Sanitation | \$ 3,709,267 | \$ 3,829,867 | \$ 3,822,965 | \$ (6,902) |
| Other revenues | <u>36,568</u> | <u>36,568</u> | <u>66,911</u> | <u>30,343</u> |
| Total operating revenues | <u>3,745,835</u> | <u>3,866,435</u> | <u>3,889,876</u> | <u>23,441</u> |
| Operating expenses: | | | | |
| Other operating expenses | 3,680,338 | 3,786,038 | 3,808,279 | (22,241) |
| Capital outlay | <u>10,000</u> | <u>10,000</u> | <u>-</u> | <u>10,000</u> |
| Total operating expenses | <u>3,690,338</u> | <u>3,796,038</u> | <u>3,808,279</u> | <u>(12,241)</u> |
| Operating income | 55,497 | 70,397 | 81,597 | 11,200 |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | <u>3,253</u> | <u>3,253</u> | <u>12,563</u> | <u>9,310</u> |
| Change in net assets | 58,750 | 73,650 | <u>94,160</u> | <u>\$ 20,510</u> |
| ADJUSTMENTS TO GAAP | | | | |
| Depreciation and amortization | | | <u>(7,449)</u> | |
| GAAP BASIS CHANGE IN NET ASSETS | | | 86,711 | |
| Total net assets-beginning | 293,704 | 293,704 | 293,704 | |
| Total net assets-ending | <u>\$ 352,454</u> | <u>\$ 367,354</u> | <u>\$ 380,415</u> | |

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

CITY OF FARMINGTON, NEW MEXICO
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual
Non-GAAP Budgetary Basis
Golf Fund
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------------|--------------|----------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Golf | \$ 1,095,434 | \$ 1,095,434 | \$ 1,118,809 | \$ 23,375 |
| Other revenues | - | - | 2,504 | 2,504 |
| Total operating revenues | 1,095,434 | 1,095,434 | 1,121,313 | 25,879 |
| Operating expenses: | | | | |
| Salaries and fringe benefits | 631,451 | 631,451 | 615,122 | 16,329 |
| Other operating expenses | 332,220 | 332,220 | 385,528 | (53,308) |
| Capital outlay | 125,000 | 132,196 | 92,839 | 39,357 |
| Total operating expenses | 1,088,671 | 1,095,867 | 1,093,489 | 2,378 |
| Operating income | 6,763 | (433) | 27,824 | 28,257 |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | 4,252 | 4,252 | 9,015 | 4,763 |
| Income (loss) before operating transfers | 11,015 | 3,819 | 36,839 | 33,020 |
| Capital contributions | - | - | 5,500 | 5,500 |
| Change in net assets | 11,015 | 3,819 | 42,339 | \$ 38,520 |
| ADJUSTMENTS TO GAAP | | | | |
| Depreciation and amortization | | | (216,361) | |
| Capital outlay capitalized | | | 92,839 | |
| | | | (123,522) | |
| GAAP BASIS CHANGE IN NET ASSETS | | | (81,183) | |
| Total net assets-beginning | 2,661,362 | 2,661,362 | 2,661,362 | |
| Total net assets-ending | \$ 2,672,377 | \$ 2,665,181 | \$ 2,580,179 | |

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

CITY OF FARMINGTON, NEW MEXICO
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual
Non-GAAP Budgetary Basis
Airport Fund
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Airport | \$ 630,071 | \$ 702,571 | \$ 594,199 | \$ (108,372) |
| Other revenues | 1,000 | 1,000 | - | (1,000) |
| | <u>631,071</u> | <u>703,571</u> | <u>594,199</u> | <u>(109,372)</u> |
| Operating expenses: | | | | |
| Salaries and fringe benefits | 251,301 | 251,301 | 228,927 | 22,374 |
| Other operating expenses | 463,372 | 463,372 | 408,174 | 55,198 |
| Capital outlay | 756,000 | 756,000 | 853,445 | (97,445) |
| Total operating expenses | <u>1,470,673</u> | <u>1,470,673</u> | <u>1,490,546</u> | <u>(19,873)</u> |
| Operating income | <u>(839,602)</u> | <u>(767,102)</u> | <u>(896,347)</u> | <u>(129,245)</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | 1,124 | 12,124 | 12,121 | (3) |
| Revenue from operating grants | 710,325 | 775,325 | 789,031 | 13,706 |
| Total nonoperating revenues (expenses) | <u>711,449</u> | <u>787,449</u> | <u>801,152</u> | <u>13,703</u> |
| Income (loss) before operating transfers | (128,153) | 20,347 | (95,195) | (115,542) |
| Operating transfers, in | <u>121,658</u> | <u>121,658</u> | <u>121,658</u> | <u>-</u> |
| Change in net assets | (6,495) | 142,005 | <u>26,463</u> | <u>\$ (115,542)</u> |
| ADJUSTMENTS TO GAAP | | | | |
| Depreciation and amortization | | | (1,175,162) | |
| Capital outlay capitalized | | | 853,445 | |
| | | | <u>(321,717)</u> | |
| GAAP BASIS CHANGE IN NET ASSETS | | | <u>(295,254)</u> | |
| Total net assets-beginning | 7,335,066 | 7,335,066 | 7,335,066 | |
| Total net assets-ending | <u>\$ 7,328,571</u> | <u>\$ 7,477,071</u> | <u>\$ 7,039,812</u> | |

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

Capital Assets- Governmental Funds

CITY OF FARMINGTON, NEW MEXICO
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules By Source
June 30, 2005 and 2006

| | <u>2006</u> | <u>2005</u> |
|---|-----------------------|-----------------------|
| Governmental funds capital assets: | | |
| Land | \$ 25,780,126 | \$ 25,436,011 |
| Buildings | 47,365,169 | 45,491,835 |
| Improvements other than buildings | 9,948,950 | 9,441,573 |
| Machinery and equipment | 22,298,221 | 21,028,305 |
| Infrastructure | 54,801,172 | 52,877,374 |
| Construction In Progress | 10,991,978 | 4,576,894 |
| Total governmental funds capital assets | <u>\$ 171,185,616</u> | <u>\$ 158,851,992</u> |
| Investments in governmental funds capital assets by source: | | |
| General fund | \$ 59,996,762 | \$ 50,672,259 |
| Special revenue fund | 95,401,522 | 92,611,003 |
| Capital projects funds | 14,632,269 | 14,823,667 |
| Donations | 1,155,063 | 745,063 |
| Total governmental funds capital assets | <u>\$ 171,185,616</u> | <u>\$ 158,851,992</u> |

CITY OF FARMINGTON, NEW MEXICO
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
For the Year Ended June 30, 2006

| Function and Activity | Land | Buildings | Improvements Other than Buildings | Machinery and Equipment | Infrastructure | Construction In Progress | Total |
|---|----------------------|----------------------|---|-------------------------------|----------------------|--------------------------------|-----------------------|
| GENERAL GOVERNMENT: | | | | | | | |
| Legislative | \$ 4,000 | \$ 6,946 | \$ - | \$ 43,609 | \$ - | \$ 439 | \$ 54,994 |
| Judicial | 80,000 | 830,416 | - | 176,725 | - | 112 | 1,087,253 |
| Operations center | - | - | - | 570,281 | - | 25,023 | 595,304 |
| Fleet maintenance | - | 4,468 | - | 435,658 | - | 425 | 440,551 |
| Stores | - | 21,264 | 154,301 | 390,189 | - | 22,052 | 587,806 |
| Finance administration | - | 3,741 | - | 32,983 | - | 121 | 36,845 |
| Personnel administration | - | 35,366 | - | 78,914 | - | 1,958 | 116,238 |
| Purchasing | - | - | - | 84,440 | - | 1,006 | 85,446 |
| Law enforcement | - | - | - | 25,796 | - | 1,085 | 26,881 |
| Administrative services | 1,105,313 | 7,764,964 | 53,545 | 990,601 | - | 24,190 | 9,938,613 |
| Planning and zoning | - | - | - | 87,849 | - | 932 | 88,781 |
| Data processing | - | 31,020 | - | 970,013 | - | - | 1,001,033 |
| Total general government | <u>1,189,313</u> | <u>8,698,185</u> | <u>207,846</u> | <u>3,887,058</u> | <u>-</u> | <u>77,343</u> | <u>14,059,745</u> |
| PUBLIC SAFETY: | | | | | | | |
| Police | 399,869 | 3,688,517 | 61,719 | 5,421,364 | - | 75,727 | 9,647,196 |
| Fire | 60,098 | 1,977,067 | 1,989 | 3,686,103 | - | 4,949,999 | 10,675,256 |
| Inspection | - | - | - | 236,923 | - | 470 | 237,393 |
| Traffic | - | 6,656 | - | 452,994 | 2,029,606 | - | 2,489,256 |
| Total public safety | <u>459,967</u> | <u>5,672,240</u> | <u>63,708</u> | <u>9,797,384</u> | <u>2,029,606</u> | <u>5,026,196</u> | <u>23,049,101</u> |
| PUBLIC WORKS: | | | | | | | |
| Streets | 15,827,228 | - | - | 2,108,121 | 42,079,010 | 4,115,091 | 64,129,450 |
| Bridges and storm drains | - | - | - | - | 10,201,788 | 756,420 | 10,958,208 |
| Administration | 1,320,817 | 164,774 | 375,341 | 117,526 | 490,768 | 166,248 | 2,635,474 |
| Survey | - | - | - | 112,912 | - | 539 | 113,451 |
| Engineering | - | - | - | 126,413 | - | 7,635 | 134,048 |
| Total public works | <u>17,148,045</u> | <u>164,774</u> | <u>375,341</u> | <u>2,464,972</u> | <u>52,771,566</u> | <u>5,045,933</u> | <u>77,970,631</u> |
| CULTURE AND RECREATION: | | | | | | | |
| Parks and recreation | 4,386,475 | 15,672,089 | 9,134,541 | 4,333,334 | - | 788,598 | 34,315,037 |
| Civic center | 92,174 | 3,113,034 | 6,047 | 427,932 | - | 5,865 | 3,645,052 |
| Senior citizens center | 141,496 | 670,949 | - | 147,224 | - | 1,218 | 960,887 |
| Museum | 970,988 | 4,712,101 | 55,467 | 131,574 | - | 39,765 | 5,909,895 |
| Total culture and recreation | <u>5,591,133</u> | <u>24,168,173</u> | <u>9,196,055</u> | <u>5,040,064</u> | <u>-</u> | <u>835,446</u> | <u>44,830,871</u> |
| LIBRARIES | | | | | | | |
| | <u>1,391,668</u> | <u>8,661,797</u> | <u>106,000</u> | <u>1,108,743</u> | <u>-</u> | <u>7,060</u> | <u>11,275,268</u> |
| Total governmental funds capital assets | <u>\$ 25,780,126</u> | <u>\$ 47,365,169</u> | <u>\$ 9,948,950</u> | <u>\$ 22,298,221</u> | <u>\$ 54,801,172</u> | <u>\$ 10,991,978</u> | <u>\$ 171,185,616</u> |

This schedule presents the capital asset balances related to governmental funds.
There are no capital assets for the internal service funds.

CITY OF FARMINGTON, NEW MEXICO
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the fiscal year ended June 30, 2006

| <u>Function and Activity</u> | <u>General Fixed Assets June 30, 2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Net Transfers</u> | <u>General Fixed Assets June 30, 2006</u> |
|--------------------------------|---|----------------------|---------------------|----------------------|---|
| GENERAL GOVERNMENT: | | | | | |
| Legislative | \$ 36,243 | \$ 18,751 | \$ - | \$ - | \$ 54,994 |
| Judicial | 162,111 | 24,822 | - | 900,321 | 1,087,254 |
| Operations center | 426,649 | 138,600 | - | 30,055 | 595,304 |
| Fleet maintenance | 311,190 | 142,955 | (13,594) | - | 440,551 |
| Stores | 560,420 | 40,867 | (1,800) | (11,682) | 587,805 |
| Finance administration | 37,947 | - | (1,102) | - | 36,845 |
| Personnel administration | 73,853 | 42,385 | - | - | 116,238 |
| Purchasing | 85,446 | - | - | - | 85,446 |
| Law enforcement | 26,882 | - | - | - | 26,882 |
| Administrative services | 9,066,432 | 1,111,268 | (47,696) | (191,391) | 9,938,613 |
| Planning and zoning | 76,371 | 12,411 | - | - | 88,782 |
| Data processing | 1,244,201 | 78,181 | (338,093) | 16,744 | 1,001,033 |
| Total general government | <u>12,107,745</u> | <u>1,610,240</u> | <u>(402,285)</u> | <u>744,047</u> | <u>14,059,747</u> |
| PUBLIC SAFETY: | | | | | |
| Police | 8,908,842 | 968,463 | (195,184) | (34,926) | 9,647,195 |
| Fire | 7,035,086 | 3,576,275 | (3,181) | 67,077 | 10,675,257 |
| Inspection | 212,780 | 65,215 | - | (40,603) | 237,392 |
| Traffic | 2,281,835 | 234,088 | (26,667) | - | 2,489,256 |
| Total public safety | <u>18,438,543</u> | <u>4,844,041</u> | <u>(225,032)</u> | <u>(8,452)</u> | <u>23,049,100</u> |
| PUBLIC WORKS: | | | | | |
| Streets | 60,712,753 | 3,476,678 | (5,916) | (54,064) | 64,129,451 |
| Bridges and storm drains | 10,571,069 | 325,576 | - | 61,564 | 10,958,209 |
| Administration | 3,176,782 | 293,489 | - | (834,799) | 2,635,472 |
| Survey | 112,912 | 539 | - | - | 113,451 |
| Engineering | 118,496 | 10,837 | - | 4,715 | 134,048 |
| Total public works | <u>74,692,012</u> | <u>4,107,119</u> | <u>(5,916)</u> | <u>(822,584)</u> | <u>77,970,631</u> |
| CULTURE AND RECREATION: | | | | | |
| Parks and recreation | 32,246,000 | 2,060,709 | (88,309) | 96,636 | 34,315,036 |
| Civic center | 3,599,538 | 46,583 | (1,069) | - | 3,645,052 |
| Senior citizens center | 974,041 | - | (9,354) | (3,800) | 960,887 |
| Museum | 5,869,929 | 45,814 | - | (5,847) | 5,909,896 |
| Total culture and recreation | <u>42,689,508</u> | <u>2,153,106</u> | <u>(98,732)</u> | <u>86,989</u> | <u>44,830,871</u> |
| LIBRARIES | | | | | |
| | <u>10,924,184</u> | <u>351,083</u> | <u>-</u> | <u>-</u> | <u>11,275,267</u> |
| Total general fixed assets | <u>\$ 158,851,992</u> | <u>\$ 13,065,589</u> | <u>\$ (731,965)</u> | <u>\$ -</u> | <u>\$ 171,185,616</u> |
| Accumulated depreciation | <u>\$ 78,634,839</u> | <u>\$ 6,031,607</u> | <u>\$ (614,512)</u> | <u>\$ -</u> | <u>\$ 84,051,934</u> |



STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Farmington’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

| | |
|--|--------------------|
| <i>Financial Trends</i> | <u>Page</u> |
| These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time. | 93 |
| <i>Revenue Capacity</i> | |
| These schedules contain information to help the reader assess the City’s most significant revenue source - gross receipts tax. Also included are property tax schedules. | 98 |
| <i>Debt Capacity</i> | |
| These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future. | 106 |
| <i>Demographic and Economic Information</i> | |
| These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place. | 110 |
| <i>Operating Information</i> | |
| The schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs. | 112 |



City of Farmington
Net Assets by Component
Last Five Fiscal Years
(accrual basis of accounting)

Schedule 1

| | Fiscal Year | | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Governmental activities | | | | | |
| Invested in capital assets, net of related debt | \$ 55,674,508 | \$ 63,961,010 | \$ 64,779,550 | \$ 66,265,472 | \$ 74,339,304 |
| Restricted | 2,689,505 | 2,678,373 | 2,422,104 | 3,514,726 | 4,219,427 |
| Unrestricted | 28,039,208 | 20,619,682 | 20,610,228 | 25,149,317 | 24,559,417 |
| Total governmental activities net assets | <u>\$ 86,403,221</u> | <u>\$ 87,259,065</u> | <u>\$ 87,811,882</u> | <u>\$ 94,929,515</u> | <u>\$ 103,118,148</u> |
| Business-type activities | | | | | |
| Invested in capital assets, net of related debt | \$ 145,695,695 | \$ 151,976,725 | \$ 194,430,074 | \$ 215,390,130 | \$ 227,625,271 |
| Restricted | 3,450,823 | 2,643,773 | 2,648,557 | 2,564,255 | 2,615,937 |
| Unrestricted | 33,466,317 | 41,559,635 | 18,361,816 | 16,535,576 | 30,290,166 |
| Total business-type activities net assets | <u>\$ 182,612,835</u> | <u>\$ 196,180,133</u> | <u>\$ 215,440,447</u> | <u>\$ 234,489,961</u> | <u>\$ 260,531,374</u> |
| Primary government | | | | | |
| Invested in capital assets, net of related debt | \$ 201,370,203 | \$ 215,937,735 | \$ 259,209,624 | \$ 281,655,602 | \$ 301,964,575 |
| Restricted | 6,140,328 | 5,322,146 | 5,070,661 | 6,078,981 | 6,835,364 |
| Unrestricted | 61,505,525 | 62,179,317 | 38,972,044 | 41,684,893 | 54,849,583 |
| Total primary government net assets | <u>\$ 269,016,056</u> | <u>\$ 283,439,198</u> | <u>\$ 303,252,329</u> | <u>\$ 329,419,476</u> | <u>\$ 363,649,522</u> |

Note: The city began reporting accrual information with the implementation of GASB Statement 34 in fiscal year 2002.

City of Farmington
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)

Schedule 2

(continued)

| | Fiscal Year | | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Expenses | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 17,921,350 | \$ 17,191,605 | \$ 23,996,456 | \$ 21,153,411 | \$ 21,649,221 |
| Police | 9,137,433 | 10,251,979 | 10,341,396 | 11,351,590 | 12,356,592 |
| Fire | 4,661,223 | 4,906,661 | 5,468,824 | 5,470,572 | 6,466,886 |
| Parks, recreation, cultural affairs | 9,232,612 | 8,392,730 | 9,284,623 | 9,497,875 | 11,105,380 |
| Community development | 7,359,539 | 7,395,603 | 5,727,834 | 7,481,297 | 8,511,853 |
| Interest on long term debt | 378,265 | 560,368 | 483,230 | 421,480 | 588,521 |
| Total governmental activities expenses | <u>48,690,422</u> | <u>48,698,946</u> | <u>55,302,363</u> | <u>55,376,225</u> | <u>60,678,453</u> |
| Business-type activities: | | | | | |
| Electric | 63,434,816 | 68,903,423 | 65,214,544 | 72,914,727 | 65,152,992 |
| Water | 6,096,326 | 7,180,833 | 6,785,002 | 6,944,219 | 6,992,577 |
| Wastewater | 3,203,574 | 3,488,296 | 4,127,386 | 4,983,626 | 4,690,385 |
| Sanitation | 3,345,147 | 3,358,430 | 3,493,487 | 3,625,722 | 3,815,728 |
| Golf | 1,076,241 | 1,060,103 | 1,198,867 | 1,209,293 | 1,217,011 |
| Airport | 1,422,951 | 1,563,162 | 2,008,715 | 1,871,508 | 1,812,263 |
| Total business-type activities expenses | <u>78,579,055</u> | <u>85,554,247</u> | <u>82,828,001</u> | <u>91,549,095</u> | <u>83,680,956</u> |
| Total primary government expenses | <u>\$ 127,269,477</u> | <u>\$ 134,253,193</u> | <u>\$ 138,130,364</u> | <u>\$ 146,925,320</u> | <u>\$ 144,359,409</u> |
| Program Revenues | | | | | |
| Governmental activities: | | | | | |
| Charges for services: | | | | | |
| General government | \$ 4,315,068 | \$ 4,892,278 | \$ 5,085,210 | \$ 5,019,939 | \$ 5,379,345 |
| Police | 14,457 | 15,132 | 74,215 | 198,017 | 39,903 |
| Parks, recreation, cultural affairs | 546,488 | 530,669 | 552,114 | 545,461 | 703,731 |
| Community development | 69,040 | 68,155 | 77,390 | 75,116 | 101,605 |
| Operating grants and contributions | 1,526,052 | 1,276,299 | 2,674,803 | 2,238,291 | 2,929,307 |
| Capital grants and contributions | - | - | - | - | - |
| Total governmental activities program revenues | <u>6,471,105</u> | <u>6,782,533</u> | <u>8,463,732</u> | <u>8,076,824</u> | <u>9,153,891</u> |
| Business-type activities: | | | | | |
| Charges for services: | | | | | |
| Electric | 78,835,548 | 79,130,644 | 84,158,287 | 91,152,321 | 89,801,858 |
| Water | 7,997,027 | 7,073,545 | 7,515,514 | 7,338,869 | 7,991,740 |
| Wastewater | 3,824,407 | 4,239,721 | 4,489,948 | 4,751,802 | 5,071,951 |
| Sanitation | 3,350,941 | 3,392,079 | 3,538,632 | 3,692,937 | 3,889,876 |
| Golf | 859,042 | 933,981 | 1,042,176 | 1,088,137 | 1,121,313 |
| Airport | 541,523 | 564,237 | 596,765 | 599,306 | 594,199 |
| Operating grants and contributions | 4,207,905 | 1,151,196 | 916,477 | 880,654 | 927,492 |
| Capital grants and contributions | 1,211,547 | 1,025,342 | 154,309 | 625,693 | 794,531 |
| Total business-type activities program revenues | <u>100,827,940</u> | <u>97,510,745</u> | <u>102,412,108</u> | <u>110,129,719</u> | <u>110,192,960</u> |
| Total primary government program revenues | <u>\$ 107,299,045</u> | <u>\$ 104,293,278</u> | <u>\$ 110,875,840</u> | <u>\$ 118,206,543</u> | <u>\$ 119,346,851</u> |

Note: The city began reporting accrual information with the implementation of GASB Statement 34 in fiscal year 2002.

City of Farmington
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)

Schedule 2

| | Fiscal Year | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Net (Expenses)/Revenues | | | | | |
| Governmental activities | \$ (42,219,317) | \$ (41,916,413) | \$ (46,838,631) | \$ (47,299,401) | \$ (51,524,562) |
| Business-type activities | 22,248,885 | 11,956,498 | 19,584,107 | 18,580,624 | 26,512,004 |
| Total primary governmental activities expenses | <u>\$ (19,970,432)</u> | <u>\$ (29,959,915)</u> | <u>\$ (27,254,524)</u> | <u>\$ (28,718,777)</u> | <u>\$ (25,012,558)</u> |
| General Revenues and Other Changes in Net Assets | | | | | |
| Governmental activities: | | | | | |
| Taxes | | | | | |
| Gross receipts taxes | \$ 35,922,137 | \$ 35,146,693 | \$ 38,351,092 | \$ 43,134,352 | \$ 49,274,220 |
| Property taxes | 922,002 | 930,112 | 985,836 | 1,043,064 | 1,121,723 |
| Franchise taxes | 2,551,995 | 2,601,794 | 715,022 | 720,748 | 1,594,098 |
| Other taxes | 1,716,477 | 1,724,672 | 1,884,994 | 1,873,736 | 1,942,024 |
| Other revenue | 3,010,951 | 3,769,728 | 3,584,543 | 3,507,135 | 2,996,953 |
| Unrestricted investment earnings | 963,133 | 635,745 | 429,108 | 471,993 | 858,611 |
| Loss on sale of capital assets | (1,902,219) | (1,904,487) | - | - | - |
| Transfers | 415 | (132,000) | 1,440,853 | 1,754,818 | 1,925,566 |
| Total governmental activities | <u>43,184,891</u> | <u>42,772,257</u> | <u>47,391,448</u> | <u>52,505,846</u> | <u>59,713,195</u> |
| Business-type activities: | | | | | |
| Unrestricted investment earnings | 1,435,925 | 1,478,800 | 1,117,060 | 790,027 | 1,454,975 |
| Transfers | (415) | 132,000 | (1,440,853) | (1,754,818) | (1,925,566) |
| Total business-type activities | <u>1,435,510</u> | <u>1,610,800</u> | <u>(323,793)</u> | <u>(964,791)</u> | <u>(470,591)</u> |
| Total primary government | <u>\$ 44,620,401</u> | <u>\$ 44,383,057</u> | <u>\$ 47,067,655</u> | <u>\$ 51,541,055</u> | <u>\$ 59,242,604</u> |
| Change in Net Assets | | | | | |
| Governmental activities | \$ 965,574 | \$ 855,844 | \$ 552,817 | \$ 5,206,445 | \$ 8,188,633 |
| Business-type activities | 23,684,395 | 13,567,298 | 19,260,314 | 17,615,833 | 26,041,413 |
| Total primary government | <u>\$ 24,649,969</u> | <u>\$ 14,423,142</u> | <u>\$ 19,813,131</u> | <u>\$ 22,822,278</u> | <u>\$ 34,230,046</u> |

Note: The city began reporting accrual information with the implementation of GASB Statement 34 in fiscal year 2002.

City of Farmington
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Schedule 3

| | Fiscal Year | | | | | | | | | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| General Fund | | | | | | | | | | |
| Reserved | \$ 435,244 | \$ 396,396 | \$ 439,874 | \$ 283,314 | \$ 229,464 | \$ 2,282,737 | \$ 2,256,852 | \$ 2,000,000 | \$ 3,393,756 | \$ 206,358 |
| Unreserved | 3,404,858 | 6,070,883 | 13,198,488 | 15,117,685 | 12,733,806 | 11,618,472 | 11,452,345 | 12,126,852 | 13,069,276 | 2,000,000 |
| Total general fund | <u>\$ 3,840,102</u> | <u>\$ 6,467,279</u> | <u>\$ 13,638,362</u> | <u>\$ 15,400,999</u> | <u>\$ 12,963,270</u> | <u>\$ 13,901,209</u> | <u>\$ 13,709,197</u> | <u>\$ 14,126,852</u> | <u>\$ 16,463,032</u> | <u>\$ 2,206,358</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | | | | | | | | | | |
| Debt service funds | \$ 446,977 | \$ 395,732 | \$ 1,167,533 | \$ 1,109,110 | \$ 1,096,449 | \$ 406,768 | \$ 421,521 | \$ 422,104 | \$ 283,833 | \$ 287,735 |
| Unreserved, reported in | | | | | | | | | | |
| Special revenue funds | 10,413,951 | 10,880,051 | 7,976,337 | 2,998,790 | 2,870,143 | 2,872,194 | 3,129,017 | 5,227,200 | 6,952,568 | 9,199,148 |
| Capital projects funds | 4,226,301 | 2,167,676 | 1,073,947 | 407,657 | 3,781,016 | 12,602,816 | 5,196,626 | 3,256,176 | 5,462,764 | 914,420 |
| Total all other governmental funds | <u>\$ 15,087,229</u> | <u>\$ 13,443,459</u> | <u>\$ 10,217,817</u> | <u>\$ 4,515,557</u> | <u>\$ 7,747,608</u> | <u>\$ 15,881,778</u> | <u>\$ 8,747,164</u> | <u>\$ 8,905,480</u> | <u>\$ 12,699,165</u> | <u>\$ 10,401,303</u> |

City of Farmington
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|---|-----------------------|---------------------|-----------------------|-----------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|--------------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Revenues | | | | | | | | | | |
| Taxes | \$ 29,769,001 | \$ 37,750,804 | \$ 33,591,316 | \$ 36,336,066 | \$ 38,862,323 | \$ 41,112,611 | \$ 40,403,271 | \$ 41,936,943 | \$ 46,771,900 | \$ 53,932,065 |
| Licenses and permits | 496,364 | 474,271 | 545,882 | 541,787 | 605,528 | 556,573 | 605,478 | 602,971 | 819,869 | 951,280 |
| Intergovernmental | 5,114,188 | 8,074,476 | 5,458,960 | 4,684,185 | 3,083,418 | 1,761,181 | 1,869,860 | 2,674,803 | 2,238,291 | 2,929,307 |
| Charges for services | 626,690 | 623,088 | 623,128 | 591,993 | 599,326 | 852,738 | 978,022 | 1,170,531 | 1,365,408 | 1,840,336 |
| Fines | 722,709 | 627,185 | 560,224 | 923,530 | 1,069,025 | 1,265,848 | 1,403,928 | 1,602,721 | 1,418,646 | 1,133,053 |
| Special assessments | 188,713 | 154,617 | 160,775 | 180,097 | 92,337 | 77,800 | 72,337 | 61,327 | 46,859 | 36,370 |
| Investment earnings | 1,273,172 | 1,321,363 | 1,154,620 | 966,600 | 1,052,525 | 960,773 | 634,552 | 425,731 | 469,012 | 858,611 |
| Miscellaneous | 951,613 | 871,754 | 434,654 | 746,565 | 688,425 | 875,603 | 1,341,924 | 1,317,524 | 1,221,761 | 876,250 |
| Total revenues | <u>39,142,450</u> | <u>49,897,558</u> | <u>42,529,559</u> | <u>44,970,823</u> | <u>46,052,907</u> | <u>47,463,127</u> | <u>47,309,372</u> | <u>49,792,551</u> | <u>54,351,746</u> | <u>62,557,272</u> |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| General government | 8,591,330 | 7,039,366 | 8,335,656 | 9,594,926 | 12,033,658 | 12,937,208 | 12,757,384 | 13,801,711 | 15,247,239 | 18,478,746 |
| Police | 8,425,140 | 8,829,177 | 7,377,884 | 9,680,015 | 9,861,647 | 9,499,112 | 10,359,890 | 10,690,905 | 10,647,826 | 12,606,701 |
| Fire | 3,802,824 | 3,699,463 | 4,069,023 | 4,245,944 | 4,426,573 | 4,491,634 | 4,719,878 | 5,416,395 | 5,097,630 | 5,872,350 |
| Parks, recreation and cultural affairs | 8,385,380 | 10,344,132 | 10,690,406 | 12,583,544 | 9,549,436 | 10,917,165 | 15,061,168 | 10,285,641 | 10,482,092 | 11,128,612 |
| Community development | 5,626,125 | 5,013,740 | 8,482,998 | 6,877,761 | 7,703,717 | 7,946,575 | 7,116,935 | 6,357,491 | 7,186,770 | 7,182,068 |
| Debt service | | | | | | | | | | |
| Principal | 805,000 | 850,000 | 895,000 | 865,000 | 955,000 | 1,360,000 | 1,815,000 | 1,900,000 | 1,965,000 | 1,060,000 |
| Interest | 489,492 | 447,492 | 401,243 | 393,364 | 284,653 | 378,265 | 560,368 | 483,230 | 421,480 | 588,521 |
| Arbitrage rebate | - | - | - | - | - | 34,387 | - | - | - | - |
| Bond issuance costs | - | - | - | - | - | 70,733 | - | - | - | - |
| Capital outlay | 4,477,308 | 7,622,800 | 3,394,502 | 4,081,929 | 574,043 | 1,579,147 | 1,505,876 | 1,722,060 | 4,653,660 | 6,844,613 |
| Total expenditures | <u>40,602,599</u> | <u>43,846,170</u> | <u>43,646,712</u> | <u>48,322,483</u> | <u>45,388,727</u> | <u>49,214,226</u> | <u>53,896,499</u> | <u>50,657,433</u> | <u>55,701,697</u> | <u>63,761,611</u> |
| Excess of revenues over (under) expenditures | <u>(1,460,149)</u> | <u>6,051,388</u> | <u>(1,117,153)</u> | <u>(3,351,660)</u> | <u>664,180</u> | <u>(1,751,099)</u> | <u>(6,587,127)</u> | <u>(864,882)</u> | <u>(1,349,951)</u> | <u>(1,204,339)</u> |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Operating transfers in | 1,359,065 | 771,703 | 2,566,188 | 3,088,479 | 5,540,599 | 960,119 | 104,810 | 2,539,337 | 2,856,182 | 3,000,104 |
| Operating transfers out | (1,362,415) | (771,703) | (2,571,575) | (3,669,441) | (5,603,991) | (1,220,341) | (844,310) | (1,098,484) | (1,101,365) | (1,824,537) |
| Refunding bonds issued | - | - | - | - | - | 15,076,862 | - | - | - | - |
| Payment to refunded bond escrow agent | - | - | - | - | - | (4,412,245) | - | - | - | - |
| Sale tax debt issuance | - | - | - | - | - | - | - | - | 5,725,000 | - |
| Total other financing sources and uses | <u>(3,350)</u> | <u>-</u> | <u>(5,387)</u> | <u>(580,962)</u> | <u>(63,392)</u> | <u>10,404,395</u> | <u>(739,500)</u> | <u>1,440,853</u> | <u>7,479,817</u> | <u>1,175,567</u> |
| Net change in fund balance | <u>\$ (1,463,499)</u> | <u>\$ 6,051,388</u> | <u>\$ (1,122,540)</u> | <u>\$ (3,932,622)</u> | <u>\$ 600,788</u> | <u>\$ 8,653,296</u> | <u>\$ (7,326,627)</u> | <u>\$ 575,971</u> | <u>\$ 6,129,866</u> | <u>\$ (28,772)</u> |
| Debt service as a percentage of noncapital expenditures | 3.5% | 3.1% | 3.2% | 3.2% | 3.4% | 4.5% | 5.8% | 5.4% | 5.1% | 3.3% |

**City of Farmington
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years**

Schedule 5

| Fiscal Year | Gross Receipts Tax | Property Tax | Franchise Tax | Other Taxes | Total Taxes |
|---------------------|---------------------------|---------------------|----------------------|--------------------|--------------------|
| 1997 | \$ 24,596,189 | \$ 693,584 | \$ 3,504,911 | \$ 974,317 | \$ 29,769,001 |
| 1998 | 32,471,206 | 755,619 | 3,506,973 | 1,017,006 | 37,750,804 |
| 1999 | 28,497,933 | 796,418 | 3,285,030 | 1,011,935 | 33,591,316 |
| 2000 | 31,039,545 | 831,478 | 2,893,504 | 1,571,539 | 36,336,066 |
| 2001 | 33,213,633 | 883,140 | 3,177,912 | 1,587,638 | 38,862,323 |
| 2002 | 35,922,137 | 922,002 | 2,551,995 | 1,716,477 | 41,112,611 |
| 2003 | 35,146,693 | 930,112 | 2,601,794 | 1,724,672 | 40,403,271 |
| 2004 | 38,351,091 | 985,836 | 715,022 | 1,884,994 | 41,936,943 |
| 2005 | 43,134,352 | 1,043,064 | 720,748 | 1,873,736 | 46,771,900 |
| 2006 | 49,274,220 | 1,121,723 | 1,594,098 | 1,942,024 | 53,932,065 |
| Change 1997-2006 | 100.3% | 61.7% | (54.5%) | 99.3% | 81.2% |

Note: Prior to 2004 Payment in Lieu of Taxes (PILT) was reported in the Franchise Tax category. PILT is currently reported as an interfund transfer.

City of Farmington
Taxable Gross Receipts by Industry
Last Ten Fiscal Years
(in thousands)

| <u>Ending 6/30</u> | <u>Fiscal Year</u> | | | | | | | | | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | (c) <u>2001</u> | <u>2002</u> | <u>2003</u> | (d) <u>2004</u> | (e) <u>2005</u> | <u>2006</u> |
| Agriculture | \$ 1,713 | \$ 1,557 | \$ 1,724 | \$ 2,199 | \$ 12 | \$ 208 | \$ 2,002 | \$ 2,461 | \$ 2,726 | \$ 2,769 |
| Mining | 55,049 | 62,599 | 71,688 | 100,802 | 117,792 | 125,093 | 108,454 | 122,936 | 133,973 | 192,806 |
| Construction | 58,215 | 80,477 | 77,766 | 96,788 | 74,984 | 97,131 | 98,292 | 90,069 | 118,025 | 142,174 |
| Manufacturing | 28,186 | 26,943 | 33,136 | 31,951 | 32,266 | 40,120 | 27,001 | 33,015 | 50,656 | 78,377 |
| Trans/Comm/Utility | 36,506 | 40,831 | 41,789 | 42,428 | 59,034 | 48,676 | 24,178 | 15,481 | 20,096 | 33,026 |
| Wholesale Trade | 72,032 | 88,739 | 83,114 | 84,959 | 101,477 | 103,921 | 76,836 | 85,158 | 113,951 | 160,468 |
| Retail Trade | 554,840 | 591,284 | 609,087 | 630,252 | 620,126 | 667,453 | 668,134 | 653,535 | 673,785 | 634,152 |
| Information and Cultural | - | - | - | - | - | - | - | 25,225 | 44,094 | 43,293 |
| Finance/Ins/Real Estate | 18,146 | 18,484 | 21,750 | 22,326 | 23,176 | 22,102 | 21,467 | 20,539 | 21,001 | 26,338 |
| Services | 214,774 | 237,056 | 265,693 | 298,995 | 302,388 | 365,188 | 365,245 | 464,410 | 507,610 | 506,892 |
| Government | - | - | 216 | - | - | - | - | 2,240 | 1,920 | - |
| Unclassified | - | - | - | - | - | 84 | 75,713 | 35,955 | 40,682 | 39,669 |
| Undisclosed (a) | - | - | - | - | 24,620 | 24,705 | 33,493 | 30,835 | 28,708 | 26,503 |
| Total (b) | \$ 1,039,461 | \$ 1,147,970 | \$ 1,205,963 | \$ 1,310,700 | \$ 1,355,875 | \$ 1,494,681 | \$ 1,500,815 | \$ 1,581,859 | \$ 1,757,227 | \$ 1,886,467 |
| City Direct Sales Tax Rate | 1.1875% | 1.1875% | 1.1875% | 1.1875% | 1.1875% | 1.1875% | 1.1875% | 1.1875% | 1.1875% | 1.1875% |

Source: State of New Mexico Department of Taxation & Revenue monthly distribution reports

(a) Data has been suppressed for purposes of taxpayer confidentiality. Information is suppressed when too few taxpayers are included in a category.

(b) Although the figures in the table have been derived from "NM_FR003-500 Local Gov't Distribution Summary" issued monthly by the State, the State suppresses revenue information in certain categories, if release of the information would compromise the confidentiality of an individual taxpayer. Accordingly, the "Taxable Gross Receipts Tax" totals in this table will differ from those in other tables.

(c) Beginning with FY 2001, the Gross Receipts Tax information is derived from the NM_FR003-500 Local Gov't Distribution Summary. Prior year history stems from the previously used Report 080-Analysis of Gross Receipts.

(d) Beginning with the 1st Quarter of FY 2004, the State changed the gross receipts tax classification system in the report NM_FR003-500 Local Gov't Distribution Summary, from the Standard Industrial Classification format to the North American Industrial Classification format.

(e) Effective January 2005, state legislation removed state gross receipts tax from groceries and healthcare, and held municipal gross receipts tax "harmless".

City of Farmington
Direct and Overlapping Gross Receipts Tax Rates
Last Ten Fiscal Years
(rate per \$1,000 of assessed value)

Schedule 7

| Fiscal Year | State GRT | City Share of State GRT | City Direct Rate | San Juan County | Total City GRT |
|--------------------|------------------|--------------------------------|-------------------------|------------------------|-----------------------|
| 1997 | 3.2750% | 1.2250% | 1.1875% | 0.2500% | 5.9375% |
| 1998 | 3.2750% | 1.2250% | 1.1875% | 0.2500% | 5.9375% |
| 1999 | 3.2750% | 1.2250% | 1.1875% | 0.2500% | 5.9375% |
| 2000 | 3.2750% | 1.2250% | 1.1875% | 0.3750% | 6.0625% |
| 2001 | 3.2750% | 1.2250% | 1.1875% | 0.3750% | 6.0625% |
| 2002 | 3.2750% | 1.2250% | 1.1875% | 0.3750% | 6.0625% |
| 2003 | 3.2750% | 1.2250% | 1.1875% | 0.3750% | 6.0625% |
| 2004 | 3.2750% | 1.2250% | 1.1875% | 0.6875% | 6.3750% |
| 2005 | 3.7750% | 1.2250% | 1.1875% | 0.6875% | 6.8750% |
| 2006 | 3.7750% | 1.2250% | 1.1875% | 0.8125% | 7.0000% |

Source: State of New Mexico Taxation and Revenue

Note: The Local Option Gross Receipts can be increased by enacting a City Ordinance. An increase to Gross Receipts Tax by either raising the Municipal Infrastructure Tax or implementing the Municipal Capital Outlay Tax requires an election.

City of Farmington
Taxable Gross Receipts Payers by Industry
Current Year and Nine Years Ago

Schedule 8

| Ending 6/30 | Fiscal Year 2006 (c) | | | | Fiscal Year 1997 | | | |
|--------------------------|----------------------|---------------------|---|---------------------|------------------|---------------------|---|---------------------|
| | Number of Filers | Percentage of Total | Taxable Gross Receipts (d) (thousands) | Percentage of Total | Number of Filers | Percentage of Total | Taxable Gross Receipts (d) (thousands) | Percentage of Total |
| Agriculture | 17 | 0.20% | \$ 2,769 | 0.15% | 16 | 0.27% | \$ 1,713 | 0.16% |
| Mining | 205 | 2.42% | 192,806 | 10.22% | 160 | 2.65% | 55,049 | 5.30% |
| Construction | 752 | 8.87% | 142,174 | 7.54% | 597 | 9.89% | 58,215 | 5.60% |
| Manufacturing | 303 | 3.57% | 78,377 | 4.15% | 198 | 3.28% | 28,186 | 2.71% |
| Trans/Comm/Utility | 109 | 1.29% | 33,026 | 1.75% | 188 | 3.11% | 36,506 | 3.51% |
| Wholesale Trade | 582 | 6.86% | 160,468 | 8.51% | 409 | 6.77% | 72,032 | 6.93% |
| Retail Trade | 1,921 | 22.66% | 634,152 | 33.62% | 1,833 | 30.36% | 554,840 | 53.38% |
| Information and Cultural | 199 | 2.35% | 43,293 | 2.29% | - | 0.00% | - | 0.00% |
| Finance/Ins/Real Estate | 314 | 3.70% | 26,338 | 1.40% | 204 | 3.38% | 18,146 | 1.75% |
| Services | 4,045 | 47.71% | 506,892 | 26.87% | 2,421 | 40.10% | 214,774 | 20.66% |
| Government | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| Unclassified | 21 | 0.25% | 39,669 | 2.10% | - | 0.00% | - | 0.00% |
| Undisclosed (a) | 10 | 0.12% | 26,503 | 1.40% | 11 | 0.18% | - | 0.00% |
| Total (b) | 8,478 | 100.00% | \$ 1,886,467 | 100.00% | 6,037 | 100.00% | \$ 1,039,461 | 100.00% |

Source: State of New Mexico Department of Taxation & Revenue monthly/quarterly distribution reports

Notes: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the city's revenue.

Beginning with FY2001, the Gross Receipts Tax information is derived from the NM_FR003-500 Local Gov't Distribution Summary. Prior year history stems from the previously used NM Report 080-Analysis of Gross Receipts.

(a) Data has been suppressed for purposes of taxpayer confidentiality. Information is suppressed when too few taxpayers are included in a category.

(b) Although the figures in the table have been derived from "NM_FR003-500 Local Gov't Distribution Summary" issued monthly by the state, the state suppresses revenue information in certain categories if the release of information would compromise the confidentiality of an individual taxpayer. Accordingly, the "Taxable Gross Receipts Tax" totals in this table will differ from those in other tables.

(c) Beginning with the 1st Quarter of FY 2004, the State changed the gross receipts tax classification system in the report NM_FR003-500 Local Gov't Distribution Summary from the Standard Industrial Classification format to the North American Industrial Classification format.

(d) Effective January 2005, state legislation removed state gross receipts tax from groceries and healthcare, and held municipal gross receipts tax "harmless".

City of Farmington
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Schedule 9

| Fiscal Year | Residential Property | Nonresidential | Personal | Less: Tax-Exempt Property | Total Taxable Assessed Value | Total Direct Residential Tax Rate | Total Direct Non Residential Tax Rate | Estimated Actual Taxable Value | Taxable Assessed Value as a Percentage of Actual Taxable Value |
|--------------------|-----------------------------|-----------------------|-----------------|----------------------------------|-------------------------------------|--|--|---------------------------------------|---|
| 1997 | \$ 235,856,912 | \$ 162,754,055 | \$ 39,260,240 | \$ 32,461,700 | \$ 405,409,507 | 1.745 | 2.030 | \$ 1,217,445,967 | 33.3% |
| 1998 | 253,132,399 | 165,015,621 | 43,332,429 | 32,901,231 | 428,579,218 | 1.713 | 2.042 | 1,287,024,679 | 33.3% |
| 1999 | 267,418,680 | 169,225,794 | 47,930,836 | 33,380,149 | 451,195,161 | 1.667 | 2.051 | 1,354,940,423 | 33.3% |
| 2000 | 305,827,139 | 238,899,699 | 52,732,381 | 57,201,892 | 540,257,327 | 1.539 | 1.916 | 1,622,394,375 | 33.3% |
| 2001 | 315,605,501 | 242,149,847 | 56,231,225 | 54,407,855 | 559,578,718 | 1.582 | 1.935 | 1,680,416,571 | 33.3% |
| 2002 | 301,906,840 | 266,855,420 | 61,117,936 | 53,434,815 | 576,445,381 | 1.584 | 1.905 | 1,731,067,210 | 33.3% |
| 2003 | 355,058,558 | 270,933,390 | 65,556,230 | 56,984,789 | 634,563,389 | 1.510 | 1.806 | 1,905,595,763 | 33.3% |
| 2004 | 373,904,326 | 279,329,944 | 66,969,671 | 59,092,903 | 661,111,038 | 1.526 | 1.850 | 1,985,318,432 | 33.3% |
| 2005 | 414,565,770 | 290,602,457 | 69,183,296 | 61,710,344 | 712,641,179 | 1.496 | 1.877 | 2,140,063,601 | 33.3% |
| 2006 | 449,119,354 | 300,261,150 | 72,774,277 | 61,449,809 | 760,704,972 | 1.511 | 1.877 | 2,284,399,315 | 33.3% |

Source: San Juan County Treasurer

City of Farmington
 Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years
 (rate per \$1,000 of assessed value)

Schedule 10

| City of Farmington Residential Direct Rates | | | | Overlapping Rates | | | | | |
|---|--------------|-------------------|-------------------|-------------------|----------|--------------------|------------------|----------------------|------------------------------------|
| Fiscal Year | General Fund | Debt Service Fund | Total Direct Rate | State | County | School District #5 | San Juan College | Secondary Vocational | Total Direct and Overlapping Rates |
| 1997 | \$ 1.745 | \$ - | \$ 1.745 | \$ 1.347 | \$ 7.223 | \$ 11.512 | \$ 3.956 | \$ 0.600 | \$ 26.383 |
| 1998 | 1.713 | - | 1.713 | 1.438 | 7.035 | 11.798 | 3.816 | 0.600 | 26.400 |
| 1999 | 1.667 | - | 1.667 | 1.482 | 6.693 | 11.054 | 3.631 | 0.600 | 25.127 |
| 2000 | 1.539 | - | 1.539 | 1.529 | 6.096 | 10.814 | 3.307 | 0.600 | 23.885 |
| 2001 | 1.582 | - | 1.582 | 1.765 | 6.276 | 10.409 | 3.405 | 0.600 | 24.037 |
| 2002 | 1.584 | - | 1.584 | 1.123 | 6.285 | 10.346 | 3.410 | 0.600 | 23.348 |
| 2003 | 1.510 | - | 1.510 | 1.520 | 6.050 | 9.757 | 3.282 | 0.600 | 22.719 |
| 2004 | 1.526 | - | 1.526 | 1.028 | 6.661 | 9.794 | 3.342 | 0.600 | 22.951 |
| 2005 | 1.496 | - | 1.496 | 1.234 | 6.627 | 9.751 | 3.316 | 0.600 | 23.024 |
| 2006 | 1.511 | - | 1.511 | 1.291 | 6.737 | 9.800 | 3.371 | 0.600 | 23.310 |

| City of Farmington Nonresidential Direct Rates | | | | Overlapping Rates | | | | | |
|--|--------------|-------------------|-------------------|-------------------|----------|--------------------|------------------|----------------------|------------------------------------|
| Fiscal Year | General Fund | Debt Service Fund | Total Direct Rate | State | County | School District #5 | San Juan College | Secondary Vocational | Total Direct and Overlapping Rates |
| 1997 | \$ 2.030 | \$ - | \$ 2.030 | \$ 1.347 | \$ 8.000 | \$ 11.692 | \$ 4.500 | \$ 0.600 | \$ 28.169 |
| 1998 | 2.042 | - | 2.042 | 1.438 | 8.000 | 11.902 | 4.500 | 0.600 | 28.482 |
| 1999 | 2.051 | - | 2.051 | 1.482 | 8.000 | 11.225 | 4.500 | 0.600 | 27.858 |
| 2000 | 1.916 | - | 1.916 | 1.529 | 8.000 | 11.077 | 4.500 | 0.600 | 27.622 |
| 2001 | 1.935 | - | 1.935 | 1.765 | 8.000 | 10.637 | 4.500 | 0.600 | 27.437 |
| 2002 | 1.905 | - | 1.905 | 1.123 | 8.000 | 10.469 | 4.500 | 0.600 | 26.597 |
| 2003 | 1.806 | - | 1.806 | 1.520 | 8.000 | 9.887 | 4.500 | 0.600 | 26.313 |
| 2004 | 1.850 | - | 1.850 | 1.028 | 8.500 | 9.943 | 4.500 | 0.600 | 26.421 |
| 2005 | 1.877 | - | 1.877 | 1.234 | 8.500 | 9.961 | 4.500 | 0.600 | 26.672 |
| 2006 | 1.925 | - | 1.925 | 1.291 | 8.500 | 9.934 | 4.500 | 0.600 | 26.750 |

Source: San Juan County Assessor's Office

City of Farmington
Principle Property Tax Payers
Current Year and Nine Years Ago

Schedule 11

| <u>Taxpayer</u> | 2006 | | | 1997 | | |
|---|-------------------------------|-------------|--|-------------------------------|-------------|--|
| | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total City Taxable Assessed Value</u> | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total City Taxable Assessed Value</u> |
| Price Development - Animas Mall | \$ 31,270,854 | 1 | 4.1% | \$ 7,507,953 | 1 | 1.9% |
| Qwest Corporation | 21,901,409 | 2 | 2.9% | 4,811,601 | 3 | 1.2% |
| Burlington Resources | 17,136,387 | 3 | 2.3% | - | - | - |
| Alltel Communications | 16,149,017 | 4 | 2.1% | - | - | - |
| PNM Gas Services | 10,915,003 | 5 | 1.4% | 1,798,134 | 8 | 0.4% |
| Hanover Compression Limited Partnership | 9,305,782 | 6 | 1.2% | - | - | - |
| Plaza Farmington II LLC | 8,378,082 | 7 | 1.1% | - | - | - |
| Constar Company | 8,073,352 | 8 | 1.1% | - | - | - |
| San Juan Development Corporation | 7,792,227 | 9 | 1.0% | - | - | - |
| Bank of America Leasing & Capital | 7,704,890 | 10 | 1.0% | - | - | - |
| Wal-Mart/Sam's Club | - | - | - | 3,746,085 | 4 | 0.9% |
| SW Farmington Incorporated (The Inn) | - | - | - | 2,466,947 | 5 | 0.6% |
| Mesa Airlines | - | - | - | 4,964,815 | 2 | 1.2% |
| Citizens Bank | - | - | - | 2,377,560 | 6 | 0.6% |
| El Paso Natural Gas | - | - | - | 1,931,725 | 7 | 0.5% |
| First National Bank | - | - | - | 1,785,114 | 9 | 0.4% |
| El Paso Field Service | - | - | - | 1,670,492 | 10 | 0.4% |
| Total | \$ 138,627,003 | | 18.2% | \$ 33,060,426 | | 8.2% |

**City of Farmington
Property Tax Levies and Collections
Last Ten Fiscal Years**

Schedule 12

| Calendar Year | Taxes Levied for the Fiscal Year | Collected Within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|--------------------------|---|---|-------------------------------|--|----------------------------------|-------------------------------|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 1996 | \$ 700,498 | \$ 671,897 | 96% | \$ 21,781 | \$ 693,678 | 99% |
| 1997 | 734,277 | 717,162 | 98% | 35,681 | 752,843 | 103% |
| 1998 | 764,652 | 753,653 | 99% | 36,620 | 790,273 | 103% |
| 1999 | 789,988 | 782,611 | 99% | 36,463 | 819,074 | 104% |
| 2000 | 844,443 | 826,288 | 98% | 31,365 | 857,653 | 102% |
| 2001 | 899,429 | 865,899 | 96% | 41,751 | 907,650 | 101% |
| 2002 | 927,021 | 874,028 | 94% | 38,212 | 912,240 | 98% |
| 2003 | 971,270 | 926,305 | 95% | 41,402 | 967,707 | 100% |
| 2004 | 1,026,992 | 982,868 | 96% | 37,284 | 1,020,152 | 99% |
| 2005 | 1,103,523 | 1,055,826 | 96% | 38,894 | 1,094,720 | 99% |

Source: San Juan County Treasurer

Notes: Taxes are levied and collected by the County Treasurer and distributed to all taxing jurisdictions. The tax rate is requested by the City Council and set by the New Mexico Department of Finance and Administration. The State allows the rate to be set at 5% in excess of the requirements to allow for delinquencies.

City of Farmington
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Schedule 13

| Fiscal Year | General Bonded Debt | | Percentage of Actual Taxable Value of Property | Per Capita | Governmental Activities | Business-type Activities | | | Total Primary Government | Percentage of Personal Income | Per Capita |
|-------------|--------------------------|-----|--|------------|-------------------------|--------------------------|------------|----------------|--------------------------|-------------------------------|------------|
| | General Obligation Bonds | | | | Sales Tax Revenue Bonds | Utility Revenue Bonds | NMED Loan | Capital Leases | | | |
| 1997 | \$ - | N/A | N/A | N/A | \$ 8,525,000 | \$ 149,355,000 | \$ - | \$ 205,552 | \$ 158,085,552 | 23.2% | \$ 3,952 |
| 1998 | - | N/A | N/A | N/A | 7,675,000 | 142,990,000 | - | 132,589 | 150,797,589 | 21.3% | 3,723 |
| 1999 | - | N/A | N/A | N/A | 6,460,000 | 96,935,000 | - | 309,478 | 103,704,478 | 14.2% | 2,561 |
| 2000 | - | N/A | N/A | N/A | 5,545,000 | 80,215,000 | - | 203,209 | 85,963,209 | 11.5% | 2,123 |
| 2001 | - | N/A | N/A | N/A | 4,590,000 | 61,420,000 | - | 793,067 | 66,803,067 | 8.7% | 1,629 |
| 2002 | - | N/A | N/A | N/A | 13,815,000 | 57,040,000 | 3,466,634 | 454,081 | 74,775,715 | 9.8% | 1,869 |
| 2003 | - | N/A | N/A | N/A | 12,000,000 | 52,210,000 | 9,488,786 | 373,369 | 74,072,155 | 9.6% | 1,829 |
| 2004 | - | N/A | N/A | N/A | 10,100,000 | 47,090,000 | 12,830,162 | 192,042 | 70,212,204 | 8.2% | 1,696 |
| 2005 | - | N/A | N/A | N/A | 13,860,000 | 41,620,000 | 12,830,162 | 646,958 | 68,957,120 | 7.4% | 1,630 |
| 2006 | - | N/A | N/A | N/A | 12,800,000 | 36,850,000 | 12,830,162 | 456,114 | 62,936,276 | 6.3% | 1,457 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. See Schedule 17 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

City of Farmington
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

Schedule 14

| <u>Governmental Unit</u> | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Direct and Overlapping Debt</u> |
|-----------------------------------|-----------------------------|--|---|
| San Juan County | \$ - | 30.32% | \$ - |
| Farmington Public Schools | 33,340,000 | 100.00% | 33,340,000 |
| San Juan College | 27,512,480 | 30.32% | <u>8,342,334</u> |
| Subtotal Overlapping Debt | | | <u>41,682,334</u> |
| City direct debt | | | 12,800,000 |
| Total direct and overlapping debt | | | <u><u>\$ 54,482,334</u></u> |

Source: Debt amounts are provided by each governmental unit

City of Farmington
 Legal Debt Margin Information
 Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Assessed Valuations | | | | | | | | | | |
| Assessed Value (1) | \$ 372,947,807 | \$ 395,677,987 | \$ 417,815,012 | \$ 483,055,435 | \$ 505,170,863 | \$ 523,010,566 | \$ 577,578,600 | \$ 602,018,135 | \$ 650,930,835 | \$ 699,255,163 |
| Add back - exempt property | 32,461,700 | 32,901,231 | 33,380,149 | 57,201,892 | 54,407,855 | 53,434,815 | 56,984,789 | 59,092,903 | 61,710,344 | 61,449,809 |
| Total Assessed Value | <u>405,409,507</u> | <u>428,579,218</u> | <u>451,195,161</u> | <u>540,257,327</u> | <u>559,578,718</u> | <u>576,445,381</u> | <u>634,563,389</u> | <u>661,111,038</u> | <u>712,641,179</u> | <u>760,704,972</u> |
| Legal Debt Margin | | | | | | | | | | |
| Debt limitation - 4 % of total assessed value | 16,216,380 | 17,143,169 | 18,047,806 | 21,610,293 | 22,387,149 | 23,057,815 | 25,382,536 | 27,134,479 | 28,505,647 | 30,428,199 |
| Debt applicable to limitation: | | | | | | | | | | |
| Total bonded debt | 157,880,000 | 150,665,000 | 103,395,000 | 85,760,000 | 66,010,000 | 70,855,000 | 64,210,000 | 57,190,000 | 55,480,000 | 49,650,000 |
| Less: Revenue bonds | <u>(157,880,000)</u> | <u>(150,665,000)</u> | <u>(103,395,000)</u> | <u>(85,760,000)</u> | <u>(66,010,000)</u> | <u>(70,855,000)</u> | <u>(64,210,000)</u> | <u>(57,190,000)</u> | <u>(55,480,000)</u> | <u>(49,650,000)</u> |
| Total net debt applicable to limitation | - | - | - | - | - | - | - | - | - | - |
| Legal Debt Margin | <u>\$ 16,216,380</u> | <u>\$ 17,143,169</u> | <u>\$ 18,047,806</u> | <u>\$ 21,610,293</u> | <u>\$ 22,387,149</u> | <u>\$ 23,057,815</u> | <u>\$ 25,382,536</u> | <u>\$ 27,134,479</u> | <u>\$ 28,505,647</u> | <u>\$ 30,428,199</u> |

(1) Excludes centrally assessed property.

City of Farmington
Pledged-Revenue Coverage
Last Ten Fiscal Years

Schedule 16

| Fiscal Year | Utility Revenue Bonds | | | | | | Sales Tax Revenue bonds | | | |
|-------------|-------------------------|--------------------------|-----------------------|--------------|---------------|----------|-------------------------|------------|------------|----------|
| | Utility Service Charges | Less: Operating Expenses | Net Available Revenue | Principal | Interest | Coverage | Sales Tax Revenue | Principal | Interest | Coverage |
| 1997 | \$ 62,008,078 | \$29,294,348 | \$32,713,730 | \$ 9,990,000 | \$ 10,798,482 | 1.57 | \$ 12,821,993 | \$ 265,000 | \$ 306,438 | 22.44 |
| 1998 | 63,978,884 | 32,428,756 | 31,550,128 | 6,465,000 | 9,387,108 | 1.99 | 16,927,240 | 310,000 | 294,248 | 28.01 |
| 1999 | 70,945,775 | 39,720,550 | 31,225,225 | 5,252,551 | 7,518,423 | 2.45 | 14,855,972 | 325,000 | 279,368 | 24.58 |
| 2000 | 72,162,111 | 41,672,313 | 30,489,798 | 5,120,000 | 5,761,169 | 2.80 | 16,180,915 | 340,000 | 263,118 | 26.83 |
| 2001 | 95,338,525 | 52,772,478 | 42,566,047 | 5,385,000 | 3,625,288 | 4.72 | 17,314,267 | 355,000 | 245,778 | 28.82 |
| 2002 | 92,079,901 | 58,676,235 | 33,403,666 | 4,380,000 | 4,005,058 | 3.98 | 18,726,210 | 965,000 | 368,188 | 14.05 |
| 2003 | 91,914,248 | 61,217,128 | 30,697,120 | 4,350,000 | 2,726,755 | 4.34 | 18,321,971 | 1,815,000 | 560,368 | 7.71 |
| 2004 | 97,272,752 | 64,101,912 | 33,170,840 | 5,120,000 | 2,291,203 | 4.48 | 19,992,424 | 1,900,000 | 483,230 | 8.39 |
| 2005 | 104,017,779 | 73,226,886 | 30,790,893 | 5,470,000 | 2,048,221 | 4.10 | 22,485,938 | 1,965,000 | 421,480 | 9.42 |
| 2006 | 104,286,825 | 64,874,653 | 39,412,172 | 4,770,000 | 1,790,605 | 6.01 | 25,686,651 | 1,060,000 | 588,522 | 15.58 |

**City of Farmington
Demographic and Economic Status
Last Ten Calendar Years**

Schedule 17

| Calendar Year | Population | Personal Income | Per Capita Personal Income | Median Age | School Enrollment | Percentage High School Graduate | Percentage Bachelor's Degree | Unemployment Rate |
|----------------------|-------------------|------------------------|-----------------------------------|-------------------|--------------------------|--|-------------------------------------|--------------------------|
| 1996 | 40,000 | \$ 680,000,000 | \$17,000 | 30.2 | 10,659 | 79.9% | 18.4% | 12.1% |
| 1997 | 40,500 | 708,750,000 | 17,500 | 30.2 | 10,556 | 79.9% | 18.4% | 10.2% |
| 1998 | 40,500 | 729,000,000 | 18,000 | 30.2 | 10,421 | 79.9% | 18.4% | 8.3% |
| 1999 | 40,500 | 749,250,000 | 18,500 | 30.2 | 10,375 | 79.9% | 18.4% | 7.5% |
| 2000 | 41,000 | 768,750,000 | 18,750 | 33.6 | 10,209 | 83.6% | 19.7% | 5.8% |
| 2001 | 40,000 | 760,000,000 | 19,000 | 33.6 | 10,215 | 83.6% | 19.7% | 5.4% |
| 2002 | 40,500 | 769,500,000 | 19,000 | 33.6 | 10,126 | 83.6% | 19.7% | 6.1% |
| 2003 | 41,400 | 852,343,200 | 20,588 | 33.6 | 10,055 | 83.6% | 19.7% | 6.8% |
| 2004 | 42,300 | 926,327,700 | 21,899 | 33.6 | 10,137 | 83.6% | 19.7% | 6.1% |
| (a) 2005 | 43,200 | 1,006,257,600 | 23,293 | 33.6 | 10,253 | 83.6% | 19.7% | 5.5% |

Sources: Statistical information prior to 2003 was obtained from City of Farmington Community Development mid-year staff estimate. Demographic information acquired from Bureau of Business and Economic Research, University of New Mexico, and the 1990 and 2000 Censuses. School enrollment provided by Farmington Municipal Schools as of the 40 day census. Unemployment information obtained from the New Mexico Department of Labor.

(a) Per Capita Personal Income estimated for current year based on prior year percent change.

City of Farmington
Principle Employers
Current Year and Six Years Ago

Schedule 18

| <u>Employer</u> | <u>2006</u> | | | <u>2000</u> | | |
|--------------------------------------|------------------|-------------|--|------------------|-------------|--|
| | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> |
| Central Consolidated Schools | 1,400 | 1 | 2.5% | 1,128 | 1 | 2.3% |
| San Juan Regional Medical Center | 1,093 | 2 | 2.0% | 776 | 4 | 1.6% |
| Farmington Public Schools | 1,200 | 3 | 2.2% | 1,090 | 2 | 2.2% |
| BHP Billiton | 928 | 4 | 1.7% | 854 | 3 | 1.7% |
| City of Farmington | 673 | 5 | 1.2% | 596 | 5 | 1.2% |
| San Juan County | 612 | 6 | 1.1% | 448 | 9 | 0.9% |
| Arizona Public Service | 579 | 7 | 1.0% | 565 | 7 | 1.1% |
| Public Service Company of New Mexico | 567 | 8 | 1.0% | 567 | 6 | 1.1% |
| Bloomfield Schools | 518 | 9 | 0.9% | 492 | 8 | 1.0% |
| San Juan College | 500 | 10 | 0.9% | 415 | 10 | 0.8% |
| Total | 8,070 | | 14.5% | 6,931 | | 13.9% |

Source: San Juan Economic Development Service and the New Mexico Department of Labor

Note: Statistical data is representative of entire county as City data is not available. Earliest accessible information is 2000.

Full-time-Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

Budgeted Full-time-Equivalent Employees as of June 30

| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Government | | | | | | | | | | |
| Administration | 32.0 | 33.0 | 34.5 | 36.5 | 36.5 | 37.5 | 37.5 | 37.5 | 38.5 | 40.5 |
| Administrative Services | 30.0 | 29.0 | 28.0 | 28.0 | 29.0 | 30.0 | 31.0 | 31.0 | 31.0 | 31.0 |
| General Services | 31.0 | 31.0 | 30.0 | 30.0 | 32.0 | 32.0 | 38.0 | 37.0 | 36.0 | 36.0 |
| Police | 153.2 | 146.2 | 135.2 | 140.5 | 143.5 | 147.5 | 148.5 | 148.5 | 148.5 | 159.5 |
| Fire | 71.0 | 71.0 | 71.0 | 73.0 | 73.0 | 73.0 | 73.0 | 73.0 | 73.0 | 82.0 |
| Parks, Recreation and Cultural Affairs | 94.5 | 94.5 | 94.5 | 96.5 | 103.5 | 107.0 | 112.0 | 114.0 | 114.0 | 118.0 |
| Community Development | 64.6 | 64.6 | 66.0 | 65.0 | 65.0 | 67.0 | 68.0 | 68.0 | 70.0 | 73.0 |
| Electric | 132.0 | 135.0 | 130.0 | 130.0 | 130.0 | 133.0 | 135.0 | 135.0 | 144.0 | 146.0 |
| Human Resources | 10.0 | 10.0 | 10.0 | 10.0 | 11.0 | 10.0 | 10.0 | 10.0 | 10.0 | 11.0 |
| Water/Wastewater | 2.0 | 2.0 | 2.0 | 3.0 | 3.0 | 4.0 | 7.0 | 7.0 | 8.0 | 8.0 |
| Golf | 10.0 | 9.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 7.0 |
| Airport | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 6.5 |
| Total Employees | <u><u>635.8</u></u> | <u><u>630.8</u></u> | <u><u>614.7</u></u> | <u><u>626.0</u></u> | <u><u>640.0</u></u> | <u><u>654.5</u></u> | <u><u>673.5</u></u> | <u><u>674.5</u></u> | <u><u>686.5</u></u> | <u><u>718.5</u></u> |

Source: City of Farmington Program Budget - Staffing Analysis Section, past ten years

Note: Full-time-Equivalent includes all approved budgeted positions.

City of Farmington
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|--|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| General Government | | | | | | | | | | |
| Total number of business registration/licenses | 2,317 | 2,730 | 2,589 | 2,618 | 2,515 | 2,549 | 2,576 | 2,730 | 2,680 | 2,739 |
| Police | | | | | | | | | | |
| Police reports | 8,995 | 7,153 | 6,605 | 7,462 | 8,213 | 8,429 | 7,177 | 6,512 | 6,636 | 6,254 |
| Arrests | 4,824 | 5,123 | 4,505 | 4,913 | 5,211 | 5,472 | 5,118 | 4,523 | 4,400 | 3,814 |
| Traffic citations | 18,286 | 13,554 | 18,291 | 27,219 | 23,898 | 23,475 | 26,147 | 22,274 | 17,473 | 16,263 |
| Fire | | | | | | | | | | |
| Fire alarm responses | 431 | 1,013 | 782 | 938 | 1,033 | 886 | 804 | 772 | 700 | 888 |
| Total responses | 4,141 | 4,366 | 3,961 | 3,670 | 4,167 | 4,195 | 4,160 | 4,746 | 4,885 | 5,457 |
| Parks and Recreation | | | | | | | | | | |
| Parks and recreation participants | 335,418 | 350,770 | 352,410 | 340,732 | 338,043 | 320,048 | 310,076 | 304,701 | 299,248 | 309,846 |
| Library | | | | | | | | | | |
| Patrons | 327,943 | 343,207 | 337,569 | 322,209 | 307,982 | 289,280 | 247,983 | 327,505 | 410,690 | 427,831 |
| Circulation | 324,133 | 300,992 | 292,266 | 280,404 | 271,748 | 279,452 | 280,022 | 392,221 | 490,717 | 517,654 |
| Number of volumes | 184,064 | 176,316 | 165,235 | 194,222 | 207,270 | 165,195 | 174,689 | 162,653 | 174,381 | 187,431 |
| Museum | | | | | | | | | | |
| Patrons | 100,010 | 11,749 | 38,277 | 60,350 | 53,544 | 47,281 | 57,782 | 52,314 | 64,572 | 75,427 |
| Community Development | | | | | | | | | | |
| Summary plats | N/A | N/A | N/A | 36 | 54 | 49 | 43 | 38 | 89 | 77 |
| Building permits issued | 1,956 | 1,821 | 1,861 | 1,797 | 1,315 | 1,382 | 1,339 | 1,443 | 1,554 | 1,494 |
| Permit valuation (in \$) | 33,017,139 | 53,025,910 | 48,352,181 | 40,301,508 | 47,969,286 | 41,087,054 | 47,827,308 | 54,288,877 | 76,647,366 | 99,406,673 |
| Asphalt placed (sq.ft.) | 111,290 | 108,412 | 96,973 | 81,722 | 125,456 | 106,852 | 96,798 | 123,514 | 83,727 | 132,216 |
| Concrete placed (cu.yd.) | 991 | 1,029 | 1,029 | 821 | 762 | 1,071 | 1,032 | 756 | 698 | 441 |
| Electric | | | | | | | | | | |
| Meter connections | N/A | N/A | 6,200 | 7,318 | 7,262 | 8,608 | 9,201 | 9,478 | 9,265 | 9,387 |
| Meter reads | N/A | N/A | 600,084 | 611,911 | 576,928 | 567,942 | 558,859 | 554,291 | 561,898 | 541,090 |
| Water/Wastewater | | | | | | | | | | |
| Water treated (millions of gallons) | N/A | N/A | 4,062 | 4,011 | 4,100 | 4,534 | 4,452 | 4,057 | 3,366 | 3,842 |
| Effluent treated (millions of gallons) | N/A | N/A | 1,824 | 1,790 | 1,779 | 1,772 | 1,832 | 1,781 | 1,858 | 1,881 |
| New water meter installations | N/A | N/A | 216 | 221 | 191 | 177 | 176 | 205 | 304 | 373 |
| Golf | | | | | | | | | | |
| Golf course participants | 77,929 | 81,564 | 78,408 | 70,626 | 62,274 | 58,466 | 54,388 | 58,399 | 60,999 | 71,689 |
| Airport | | | | | | | | | | |
| Total enplanements | 86,124 | 75,495 | 63,774 | 63,403 | 62,459 | 39,085 | 27,160 | 30,132 | 35,503 | 32,575 |

Source: Provided by various City department

Notes: A portion of 1997 and 1998 was estimated based on the same quarters for FY98, FY99 and FY00. Fluctuation in museum patronage is due to special exhibits.

City of Farmington
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Schedule 21

| | Fiscal Year | | | | | | | | | |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Police | | | | | | | | | | |
| Police stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Sub-stations | N/A | N/A | 3 | 4 | 3 | 3 | 3 | 3 | 3 | 3 |
| Patrol units | N/A | 134 | 141 | 151 | 158 | 166 | 170 | 172 | 155 | 170 |
| Fire stations | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 6 |
| Parks and Recreation | | | | | | | | | | |
| Developed acres | 515 | 519 | 529 | 584 | 584 | 584 | 586 | 588 | 588 | 589 |
| Undeveloped acres | 1,082 | 1,078 | 1,740 | 1,275 | 1,275 | 1,275 | 1,273 | 1,282 | 1,289 | 1,288 |
| Number of parks | 59 | 59 | 59 | 70 | 71 | 76 | 77 | 79 | 80 | 80 |
| Baseball/softball diamonds | 15 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 25 | 25 |
| Soccer/football fields | 9 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 13 | 13 |
| Number of golf courses | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Community Development | | | | | | | | | | |
| Streets (miles) | N/A | N/A | N/A | N/A | N/A | 234 | 235 | 238 | 240 | 245 |
| Highway (miles) | N/A | N/A | N/A | N/A | N/A | 17 | 17 | 17 | 17 | 17 |
| Streetlights | N/A | N/A | N/A | N/A | N/A | 3,843 | 3,871 | 3,915 | 3,933 | 3,971 |
| Traffic signals | N/A | N/A | N/A | N/A | N/A | 73 | 74 | 75 | 76 | 77 |
| Water | | | | | | | | | | |
| Water mains (miles) | N/A | N/A | N/A | N/A | N/A | 310 | 318 | 325 | 330 | 336 |
| Fire hydrants | N/A | N/A | N/A | N/A | N/A | 1,866 | 2,010 | 2,154 | 2,296 | 2,360 |
| Storage capacity (thousands of gallons) | N/A | N/A | N/A | N/A | N/A | 24,300 | 24,300 | 24,300 | 24,300 | 24,300 |
| Wastewater | | | | | | | | | | |
| Sanitary sewers (miles) | N/A | N/A | N/A | N/A | N/A | 191 | 195 | 199 | 203 | 207 |
| Treatment capacity (thousands of gallons) | N/A | N/A | N/A | N/A | N/A | 5,800 | 5,800 | 6,670 | 6,670 | 6,670 |
| Transit - minibuses | N/A | N/A | N/A | N/A | 8 | 8 | 8 | 8 | 8 | 8 |

Source: Provided by various City department

Note: The city implemented GASB Statement 34 infrastructure information in fiscal year 2002.

Single Audit Section

**CITY OF FARMINGTON, NEW MEXICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2006

| PROGRAM NAME | CFDA Number | Grantor / Pass-through ID Number | Balance July 1, 2005 | Cash Receipts | Disburse- ments | Balance June 30, 2006 |
|--|------------------------|--|-------------------------------------|--------------------------|----------------------------|--------------------------------------|
| DIRECT PROGRAMS | | | | | | |
| Airport Improvement Program 2003-04 Project Noise Mitigation Project | 20.106 | U.S. Department of Transportation | \$ 34,580 | \$ (34,580) | \$ - | \$ - |
| Airport Improvement Program 2004 Project | 20.106 | U.S. Department of Transportation | - | (689,748) | 689,748 | - |
| Community Development Block Grant (CDBG) | 14.228 | U.S. Department of HUD | - | (297,920) | 297,920 | - |
| Federal Transit - Metropolitan 2005 Transit Operations and Capital | 20.505 | U.S. Department of Transportation | - | (501,912) | 501,912 | - |
| Law Enforcement Block Grant-2006 | 16.592 | U.S. Department of Justice | - | - | 50,713 | 50,713 |
| Bullet Proof Vest program | 16.207 | U.S. Department of Justice | - | (1,280) | 1,280 | - |
| HIDTA Grant | 16.000 | Office of the President / I4PSNP572 | 47,465 | (153,572) | 188,243 | 82,136 |
| PASS THROUGH PROGRAMS | | | | | | |
| From the State of New Mexico | | | | | | |
| Department of Public Safety | | | | | | |
| Region II Narcotics Grant (U.N.E.T.) | 16.579 | U.S. Department of Justice / 04-DCSI-PPA 02-REGION II-FY05 | 110,584 | (177,871) | 170,711 | 103,424 |
| Total Federal Assistance | | | \$ 192,629 | \$ (1,856,883) | \$ 1,900,527 | \$ 236,273 |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF FARMINGTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

NOTE 1 - SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

All federal grant operations of the City of Farmington (the "City") are included in the scope of the Office of Management and Budget ("OMB") Circular A-133 audit (the "Single Audit"). The Single Audit was performed in accordance with the provisions of the OMB Circular Compliance Supplement. Compliance testing of all requirements as described in the Compliance Supplement was performed for the grant programs noted below. These programs represent all federal award programs and other grants with fiscal 2006 cash and non-cash expenditures to ensure coverage of at least 25 percent (low risk auditee) of federally granted funds. Actual coverage is 26% of total cash and non-cash federal award program expenditures.

| | <u>Fiscal Year 2006</u> <u>Expenditure</u> |
|--|---|
| Major Federal Award Program Description | |
| 20.505 – Federal Transit Metropolitan Grants | \$ 501,912 |

The City has one high-risk type A and one low-risk type A programs for the 2006 audit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal grants to the City that had activity during the fiscal year ended June 30, 2006. This schedule has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the City has met the qualifications for the respective grants.

Accrued and deferred reimbursements

Various reimbursement procedures are used for Federal awards received by the City. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Accrued balances at year-end represent an excess of reimbursable expenditures over receipts to date. Generally, accrued or deferred balances covered by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance With
*Government Auditing Standards***

City of Farmington
Farmington, New Mexico
Honorable Mayor and City Council and
Mr. Domingo P. Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the combining and individual funds presented as supplemental information of the City of Farmington, New Mexico (City) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 that are required to be reported under *Government Auditing Standards*.

We noted instances of noncompliance that are required to be reported under Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 2006-1, 2006-2 and 2006-3.

This report is intended solely for the information and use of the City Council, City management, the Office of the State Auditor, the New Mexico Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, looping initial "D".

Farmington, New Mexico
November 3, 2006

**Report on Compliance
With Requirements Applicable to Each
Major Program and Internal Control Over
Compliance in Accordance With
OMB Circular A-133**

City of Farmington
Farmington, New Mexico
Honorable Mayor and City Council
and
Mr. Domingo P. Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the compliance of the City of Farmington, New Mexico (City) 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 June 30, 2006. The City'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 City's management. Our responsibility is to express an opinion on the City'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 City'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 City's compliance with those requirements.

In our opinion, the City 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 June 30, 2006.

Internal Control Over Compliance

The management of the City 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 City'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 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 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 solely for the information and use of the City Council, City management, the Office of the State Auditor, the New Mexico Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, looping initial "D".

Farmington, New Mexico
November 3, 2006

**CITY OF FARMINGTON
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
Year Ended June 30, 2006**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Farmington.
2. No material weaknesses relating to the audit of the financial are reported in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the City are reported in Part C. of this Schedule.
7. The program tested as major programs included:

| | <u>Fiscal Year 2006</u> <u>Expenditure</u> |
|---|---|
| Major Federal Award Program Description | |
| 20.106 – Airport Improvement Program | \$ 551,845 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low-risk auditee.

**CITY OF FARMINGTON
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
Year Ended June 30, 2006**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

| Prior Year Findings | | Status |
|----------------------------|---|---------------|
| 2005-1 | Outstanding Bank Items | Cleared |
| 2005-2 | Unbilled Property Taxes | Cleared |
| 2005-3 | Enterprise Budget to Actual Comparisons | Cleared |

Current Year Findings

2006-1 Travel Reimbursement

Condition

During our testing of 15 travel and per diem reimbursements, we noted that an individual requested a reimbursement for other expenses (\$9.54) that were expended for food items.

Criteria

The City should follow its policies and procedures, and the State Per Diem and Mileage Act related to travel expenditures.

Cause

The "Actual Expenditure Worksheet" was approved for food expenditures listed as other expenditures.

Effect

The City is not in compliance with its policies and procedures related to travel expenditures.

Recommendation

The City should follow its policies and procedures and the State Per Diem and Mileage Act related to travel expenditures.

Management Response

The City discovered this noncompliance issue during a routine examination of our travel reimbursements. Procedures are in place to discover this type of noncompliance. The amount has been repaid to the City. We talked to the travel coordinator involved about this instance to ensure this doesn't happen again and we have incorporated this situation into our travel training in an effort to prevent this from occurring in the future.

2006-2 Personal Use of Purchase Cards

Condition

During the fiscal year, the City detected four instances (amounts of \$130.00, \$429.60, \$1,199.99 and \$120.00) of individuals using a City issued Purchase Card for personal use.

Criteria

The City's policy for Purchase Cards prohibits the use of the Purchase Cards for personal purchases as addressed in FR-03-4.

Cause

The individuals did not comply with the City's policy for Purchase Cards.

Effect

There were instances of noncompliance with the City's policy on the use of the Purchase Cards.

Recommendation

The City should continue to strictly enforce the City's policy and take appropriate action against individuals that do not comply with the City's policy.

Management Response

The City discovered these noncompliance issues during the processing of the Purchase Card statements. Procedures are in place to discover this type of noncompliance. The amounts have been repaid to the City. Appropriate action was taken to address these instances with each employee involved. The City has recently updated the Purchase Card Policies and Procedures Handbook and incorporates all discoveries of noncompliance into training for all new Purchase Card holders in an effort to prevent any type of noncompliance.

2006-3 Actual Expenses Exceeded Final Budget

Condition

The City's actual expenses exceeded final budget in the Airport Enterprise Fund and the Sanitation Enterprise Fund.

Criteria

The City is not in compliance with State Statute 6-6-6 NMSA 1978 regarding expenses not exceeding budgeted authority. The State requires that actual expenses do not exceed final budgeted expenses.

Cause

The City did not sufficiently increase budgeted expenses at year end to cover actual expenses for the year ended June 30, 2006.

Effect

The City is not in compliance with the State Statute regarding expenses not exceeding budgeted authority.

Recommendation

The City should adopt a final budget so that actual expenses will not exceed budgeted expenditures.

Management Response

The Sanitation fund's expenses exceeded the budget amount due to booking accrued unbilled revenue which was received in July. The related expense was booked due to the sanitation contract which states that 94% of the revenue will be paid to the contractor. This accrual entry was made after the final budget revision was approved. In the Airport fund, additional revenues were received during the year and the revenue increase was included in the final budget revision but the corresponding increase to the budgeted expense line item was omitted. In the future, management will make every effort to review final actual expenses and try to anticipate any additional accrued expense for each fund and adjust the final budget revision accordingly.

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**REPORT AND OTHER INFORMATION
REQUIRED BY THE PASSENGER FACILITY
CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES**



Report on Compliance Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance in Accordance with the Passenger Facility Charge Audit Guide for Public Agencies and on the Schedule of Passenger Facility Charges Revenues and Disbursements

City of Farmington
Farmington, New Mexico
Honorable Mayor and City Council
and
Mr. Domingo P. Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the compliance of the City of Farmington, New Mexico (City) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2006. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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 the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. Those standards and the Guide 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City'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 City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its passenger facility program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with the Guide.

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 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 and regulations caused by error or fraud that would be material in relation to the passenger facility charge 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.

Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the combining and individual funds presented as supplemental information of the City of Farmington, New Mexico (City) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements. The accompanying schedule of passenger facility charges and disbursements as required by the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies*, is presented for purposes of additional analysis and is not a required part of the financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, City management, the Office of the State Auditor, the New Mexico Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Farmington, New Mexico
November 3, 2006

PFC Revenue and Disbursement Schedule

Four Corners Regional Airport

FY-06

7/1/05 - 6/30/06

| | FY-05 Program Total | Quarter 1 Jul-Sept | Quarter 2 Oct-Dec | Quarter 3 Jan-Mar | Quarter 4 Apr-Jun | FY-06 Total | FY-06 Program Total |
|--|------------------------|-----------------------|----------------------|----------------------|----------------------|----------------|------------------------|
| Revenue | | | | | | | |
| Collections | \$ 166,997 | \$ 16,189 | \$ 20,946 | \$ 20,059 | \$ 18,133 | \$ 75,327 | \$ 242,324 |
| Interest | - | - | - | - | - | - | - |
| Total Revenue | 166,997 | 16,189 | 20,946 | 20,059 | 18,133 | 75,327 | 242,324 |
| Disbursements | | | | | | | |
| Application 01 | | | | | | | |
| Proj. 1-A Runway Improvements | 148,596 | - | - | - | - | - | 148,596 |
| Proj. 1-B Taxiway Improvements | 18,401 | 16,189 | 20,946 | 20,059 | 18,133 | 75,327 | 93,728 |
| Proj. 1-C Apron Improvements | - | - | - | - | - | - | - |
| Proj. 1-D Drainage Improvements | - | - | - | - | - | - | - |
| Proj. 1-E Signage Improvements | - | - | - | - | - | - | - |
| Proj. 1-F Airfield Electrical Improvements | - | - | - | - | - | - | - |
| Proj. 1-G Security Improvements | - | - | - | - | - | - | - |
| Proj. 1-H Terminal Improvements | - | - | - | - | - | - | - |
| Proj. 1-I Non-revenue Parking Improvements | - | - | - | - | - | - | - |
| Proj. 1-J Acquire Safety Equipment | - | - | - | - | - | - | - |
| Proj. 1-K Conduct Planning | - | - | - | - | - | - | - |
| Proj. 1-L Improve Service Roads | - | - | - | - | - | - | - |
| Proj. 1-M Administrative Costs | - | - | - | - | - | - | - |
| Total App 01 | 166,997 | 16,189 | 20,946 | 20,059 | 18,133 | 75,327 | 242,324 |
| Total Disbursements | 166,997 | 16,189 | 20,946 | 20,059 | 18,133 | 75,327 | 242,324 |
| Net PFC Revenue (rev-disb.) | | | | | | | |
| PFC Account Balance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

Notes:

1. Cash Basis

CITY OF FARMINGTON
PASSENGER FACILITY CHARGE PROGRAM AUDIT SUMMARY
Year Ended June 30, 2006

1. Type of report issued on PFC financial statements - Unqualified.
2. Type of report on PFC compliance – Unqualified.
3. Quarterly Revenue and Disbursements reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts – Yes.
4. PFC Revenue and Interest is accurately reported on FAA Form 5100-127 – Yes.
5. The Public Agency maintains a separate financial accounting record for each application – Yes.
6. Funds disbursed were for PFC eligible items as identified in the FAA Decision to pay only for allowable costs of the projects – Yes.
7. Monthly carrier receipts were reconciled with quarterly carrier reports – Yes.
8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds – Yes.
9. Serving carriers were notified of PFC program actions/changes approved by the FAA – N/A.
10. Quarterly Reports were transmitted (or available via website) to remitting carriers – Yes.
11. The Public Agency is in compliance with Assurances 5, 6, 7 and 8 – Yes.
12. Project design and implementation is carried out in accordance with Assurance 9 – Yes.
13. Program administration is carried out in accordance with Assurance 10 – Yes.
14. For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence – N/A.

CITY OF FARMINGTON
EXIT CONFERENCE
Year Ended June 30, 2006

An exit conference was held on November 27, 2006. In attendance were:

For the City of Farmington:

| | |
|-------------------|---|
| William Standley | Mayor |
| Bob Hudson | City Manager |
| Rob Mayes | Executive Assistant to the City Manager |
| Andy Mason | Administrative Services Director |
| Eric Schlotthauer | Controller |
| Steve Ellison | Financial Accountant |
| Sue Nipper | Enterprise Accounting Supervisor |
| Sheree Wilson | General Accountant |

For David Berry, CPA, PC (auditors):

| | |
|-------------|-----|
| David Berry | CPA |
|-------------|-----|



OTHER INFORMATION

**CITY OF FARMINGTON, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL**

June 30, 2006

| | <u>Bank of America</u> | <u>Citizens Bank of Farmington</u> | <u>Wells Fargo</u> |
|---|----------------------------|--|------------------------|
| <u>City of Farmington Deposits</u> | | | |
| Demand Deposit Accounts | \$ - | \$ 300,005 | \$ 3,490,376 |
| Overnight Deposits | - | - | 4,313,851 |
| Certificate of Deposit | 10,000,000 | 23,071,945 | 25,000,000 |
| Sub-Total | <u>10,000,000</u> | <u>23,371,950</u> | <u>32,804,227</u> |
| Less FDIC insurance | 100,000 | 100,000 | 200,000 |
| Uninsured amount | 9,900,000 | 23,271,950 | 32,604,227 |
| <u>Pledge Collateral Required</u> | | | |
| 102 percent - overnight | - | - | 4,400,128 |
| 50 percent - deposits | 4,950,000 | 11,635,975 | 14,145,188 |
| Total Pledged Collateral Required | <u>4,950,000</u> | <u>11,635,975</u> | <u>18,545,316</u> |
| Pledged collateral | <u>5,200,565</u> | <u>15,397,848</u> | <u>23,166,729</u> |
| Excess of pledged collateral | <u>\$ 250,565</u> | <u>\$ 3,761,873</u> | <u>\$ 4,621,413</u> |

Pledged collateral (market value) and location of each respective financial institution consists of the following:

| Location of collateral | <u>Dallas, TX</u> | <u>Dallas, TX</u> | <u>Los Angeles</u> |
|-------------------------------|---------------------|----------------------|----------------------|
| Federal Home Loan Bank | | | |
| cusip # 013572FS6 08/01/06 | \$ | \$ 1,800,666 | \$ |
| cusip # 3128F4SJ1 12/01/24 | | - | |
| cusip # 31359MSL8 07/17/13 | | 4,656,250 | |
| cusip # 3136F6YL7 12/25/12 | | 3,534,790 | |
| cusip # 31371LPU7 04/01/14 | | 2,536,513 | |
| cusip # 31393APP6 12/25/32 | | 1,001,139 | |
| cusip # 31394HYD7 05/15/16 | | 1,868,490 | |
| FNMS | | | |
| cusip # 31385XAZO 05/01/33 | 5,200,565 | | |
| FHARM | | | |
| cusip # 31348T2F8 10/01/20 | | | 69,005 |
| FNCL | | | |
| cusip # 31371KF89 12/01/31 | | | 170,266 |
| cusip # 31374TNW5 03/01/29 | | | 356,149 |
| cusip # 31385HXE7 11/01/31 | | | 13,056 |
| cusip # 31385JRN0 11/01/32 | | | 64,772 |
| cusip # 31385JRT7 11/01/32 | | | 191,630 |
| cusip # 31385W2S7 03/01/33 | | | 204,264 |
| cusip # 31385XBD8 05/01/33 | | | 91,539 |
| cusip # 31385XD95 04/01/33 | | | 402,815 |
| cusip # 31388WXD3 01/01/32 | | | 167,281 |
| cusip # 31391GGC4 11/01/32 | | | 167,098 |
| cusip # 31391VKQ5 01/01/33 | | | 269,325 |
| cusip # 31402DDP2 06/01/34 | | | 8,301,271 |
| cusip # 31402RDF3 04/01/35 | | | 2,478,180 |
| cusip # 31407HS80 02/01/36 | | | 151,136 |
| cusip # 31408HBY0 03/01/36 | | | 318,860 |
| cusip # 31409DUS0 04/01/36 | | | 2,458,346 |
| cusip # 31409WAJ0 04/01/36 | | | 1,178,834 |
| cusip # 31403DDX4 04/01/36 | | | 5,245,143 |
| G2SF | | | |
| cusip # 36202DUV1 10/20/32 | | | 52,078 |
| GNSF | | | |
| cusip # 36225BEK0 05/15/29 | | | 699,182 |
| cusip # 36225BEV6 06/15/29 | | | 39,577 |
| cusip # 36225BKX5 09/15/29 | | | 45,929 |
| cusip # 36225BM39 04/15/31 | | | 30,993 |
| | <u>\$ 5,200,565</u> | <u>\$ 15,397,848</u> | <u>\$ 23,166,729</u> |

**CITY OF FARMINGTON, NEW MEXICO
SCHEDULE OF JOINT POWERS AGREEMENTS**

June 30, 2006

| Participants (including City of Farmington) | Responsible Party | Description | Dates of Agreement | Total Amount/ City Share | FY06 Amount | Audit Responsibility |
|---|--|-----------------------|---------------------------|---------------------------------|----------------|--|
| Aztec,Bloomfield & San Juan County | San Juan County Communications Authority | Communications | 3/31/92 until termination | \$125,000/ up to \$55,000/yr | \$ 62,993 | San Juan County Communications Authority |
| Aztec,Bloomfield & San Juan County | Crime Stoppers | Law enforcement | 07/01/05 through 06/30/2 | \$23,000/\$10,410 | \$ 10,410 | City of Aztec |
| Aztec,Bloomfield, San Juan County San Juan Water Users Assoc. | Water Commission | Water issues | 3/5/86 until termination | \$18.2m/32.46% | - | Water Commission |
| Aztec,Bloomfield, SJ County, NM Dept. of Public Safety San Juan College | San Juan County Crimminal Justice Training Authority | Police Training | 8/07/96 until termination | \$75,000/\$35,150 | \$ 35,150 | SJ College |
| Aztec,Bloomfield & San Juan County | City of Farmington | Recycling Center | 11/1/97 until termination | \$70,232/\$64,291 | \$ 64,291 | Each entity |
| San Juan County | San Juan County | Septage Station | 12/16/94 through 12/16/14 | \$200,000/operating | in-kind only | City |
| Aztec,Bloomfield, B.L.M. San Juan County N.M.Environment Dept. | Trash Force | Illegal dumping | 9/26/91 until termination | As needed | in-kind only | City |
| San Juan County | City of Farmington | Impact Fees | 2/15/96 perpetual | Fee for service | - | City |
| Aztec,Bloomfield, San Juan County | All Participants | Solid Waste | 03/25/92 | As required | - | City |
| NM Taxation & Revenue | Tax & Revenue | Taxpayer Identi. | 05/17/89 perpetual | Not applicable | - | City |
| NM Community Development Council and NM Dept of Finance & Admin. | Dept. of Finance | Title 1 Housing | 04/12/00 perpetual | Not applicable | - | City |
| Aztec,Bloomfield, SJ County | City of Farmington | MPO | 3/11/03 to 9/30/06 | \$ 52,090 / \$ 17,645 | \$ 17,645 | City |
| San Juan County | San Juan County | Detention Center | 12/16/04 to 6/30/06 | \$9,272,000/\$853,583 | \$ 853,583 | San Juan County |
| San Juan County | San Juan County | DWI Treatment Ctr | 04/15/98 to 12/31/06 | \$1,639,000/\$440,000 | \$ 440,000 | San Juan County |
| NM Energy, Minerals and Natural Resources Department (NMEMNRD) | NMEMNRD | Wildfire Firefighting | 12/12/05 to 12/11/10 | As needed | \$ 29,392 | NMEMNRD |