REPORT OF

CITY OF MONTGOMERY, MISSOURI

YEAR ENDED JUNE 30, 2013

CITY OF MONTGOMERY, MISSOURI

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CITY OF MONTGOMERY, MISSOURI

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GK&C
GERDING, KORTE & CHITWOOD

Professional Corporation
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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Honorable Mayor and Members
of the Board of Aldermen
City of Montgomery, Missouri

Report on the Financial Statements

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 Montgomery, Missouri (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

PARTNERS

Robert A. Gerding
Fred W. Korte, Jr.
Joseph E. Chitwood
James R. McGinnis
Travis W. Hundley
Jeffrey A. Chitwood

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 4 – 10 and 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Gerding, Korte & Chitwood

January 24, 2014

Gerding, Korte & Chitwood, P.C.
Certified Public Accountants
Boonville, Missouri

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2013
(UNAUDITED)

As management of the City of Montgomery, Missouri, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. The City implemented Governmental Accounting Standards Board GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* for the first time for fiscal year 2004. Statement 34 allows for prospective reporting of general infrastructure effective with the year beginning July 1, 2003.

Financial Highlights

- The assets of the City of Montgomery exceeded its liabilities at the close of the most recent fiscal year by $8,267,141 (net position). Of this amount, $1,652,634 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

- The City's total net position increased by $230,406. Capital grants and contributions from developers increased the net position by $164,514.

- As of the close of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of $644,310. Of this amount $62,128 is unassigned and available for use within the City's designation and policies.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $139,531 or 7.7% of the total general fund expenditures.

- The City's revenue bonds payable decreased $150,396 due to scheduled payments.

- The City's capital lease debt increased $1,120,000 due to scheduled payments of $50,000 and a refund issuance of $1,170,000, which won't have associated payment until February, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 the broad overview of the City's finances, in a manner similar to private-sector business.

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

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when 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 the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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 include general government and administration, public safety, transportation, cultural, parks and recreation and community development. The business-type activities of the City include Water, Sewer, and Gas operations. The government-wide financial statements can be found on page 11-13 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, 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 can be divided into two categories - governmental funds and 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 current sources and uses 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 the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the 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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains five 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 which is considered to be a major fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental funds financial statements can be found on pages 14-18.

Proprietary Funds - The City maintains two 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 uses enterprise funds to account for its water, wastewater, and gas 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 water, wastewater and gas funds since they are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 19-22 of this report.

Fiduciary Funds - Fiduciary fund statements provide information about the financial relationships, like the Employee Deferred Compensation Fund, in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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 25-58.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 59 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 60-61 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Montgomery, assets exceeded liabilities by $8,267,141 as of June 30, 2013.

The largest portion of the City's net position (57%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NET POSITION

The following table provides a summary of the City's net position at June 30, 2013, with comparative figures for June 30, 2012:

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current assets	$ 1,540,286	$ 1,545,468	$ 1,429,615	$ 1,307,719	$ 2,969,901	$ 2,853,187
Restricted assets	25,419	21,460	2,989,952	1,923,197	3,015,371	1,944,657
Capital assets	2,083,939	2,028,498	7,514,863	7,777,236	9,598,802	9,805,734
Total Assets	3,649,644	3,595,426	11,934,430	11,008,152	15,584,074	14,603,578
Current liabilities	886,410	935,308	1,696,458	617,950	2,582,868	1,553,258
Long-term liabilities	445,952	458,554	4,288,113	4,555,031	4,734,065	5,013,585
Total Liabilities	1,332,362	1,393,862	5,984,571	5,172,981	7,316,933	6,566,843
Net Position						
Net investment in capital assets	1,766,117	1,665,710	2,944,790	2,821,149	4,710,907	4,486,859
Restricted	317,329	317,116	1,586,271	1,726,456	1,903,600	2,043,572
Unrestricted	233,836	218,738	1,418,798	1,287,566	1,652,634	1,506,304
Total Net Position	$ 2,317,282	$ 2,201,564	$ 5,949,859	$ 5,835,171	$ 8,267,141	$ 8,036,735

As of June 30, 2013, the City is able to report positive balances in all three categories of net position for the government as a whole.

Analysis of the City's Operations - Overall the City had an increase in net position of $230,406.

Governmental Activities: Governmental activities increased the net position by $115,718.

Business-type Activities: Net Position from business-type activities increased by $114,688 or 1.97% from $5,835,171 to $5,949,859.

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2013
(UNAUDITED)

CHANGES IN NET POSITION

The following table provides a summary of the City's operations for the year ended June 30, 2013, with comparative figures for the year ended June 30, 2012.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Fees, fines and charges for services	$ 538,996	$ 500,832	$ 1,788,526	$ 1,660,147	$ 2,327,522	$ 2,160,979
Operating grants and contributions	32,326	25,345	-	-	32,326	25,345
Capital grants and contributions	164,514	31,698	-	-	164,514	31,698
General Revenues:						
Property taxes	348,082	344,177	-	-	348,082	344,177
Sales and use taxes	443,036	467,097	-	-	443,036	467,097
Motor vehicle and fuel taxes	101,914	97,109	-	-	101,914	97,109
Other taxes	287,649	291,216	-	-	287,649	291,216
Investment earnings	3,687	7,707	74,325	-	78,012	7,707
Transfers	197,260	198,890	(197,260)	(198,890)	-	-
Miscellaneous	21,378	25,640	-	84,842	21,378	110,482
Total Revenues	2,138,842	1,989,711	1,665,591	1,546,099	3,804,433	3,535,810
Expenses:						
General government	391,185	372,612	-	-	391,185	372,612
Public safety	439,459	438,287	-	-	439,459	438,287
Public works	628,569	616,335	-	-	628,569	616,335
Cultural, parks and recreation	60,502	61,713	-	-	60,502	61,713
Solid waste	372,311	355,524	-	-	372,311	355,524
Water/sewer	-	-	927,805	920,913	927,805	920,913
Gas	-	-	623,098	626,292	623,098	626,292
Interest on long-term debt	26,880	15,480	-	-	26,880	15,480
Economic development	104,218	135,979	-	-	104,218	135,979
Total Expenses	2,023,124	1,995,930	1,550,903	1,547,205	3,574,027	3,543,135
Total other items	-	(47,224)		(59,858)	-	(107,082)
Change in net position	115,718	(53,443)	114,688	(60,964)	230,406	(114,407)
Net Position - Beginning of Year	2,201,564	2,255,007	5,835,171	5,896,135	8,036,735	8,151,142
Net Position - End of Year	$ 2,317,282	$ 2,201,564	$ 5,949,859	$ 5,835,171	$ 8,267,141	$ 8,036,735

Financial Analysis of the Government's Funds

Governmental funds - The focus of the City of Montgomery'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's financing requirement. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of $644,310. Of this amount $62,128 constitutes unassigned fund balance.

In the general fund, the City originally budgeted for an increase of $200 in the fund balance. Due to actual expenditures being less than budgeted, the actual fund balance increased for fiscal year 2013 by $26,074. The final budget was adjusted to actual revenues and expenses by the City.

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

Unrestricted net position of the respective proprietary funds are Gas - $498,746, Water/Sewer - $920,052. Funds which had a net position increase/(decrease) in 2013 were as follows: Gas – $31,752 and Water/Sewer - $82,936.

Capital Assets

The City of Montgomery's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amounts to $9,598,802 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements and construction in progress. The following table provides a summary of the City's capital assets at June 30, 2013, with comparative figures for June 30, 2012:

Capital Assets At Year-End
Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Property, plant and equipment:						
Land, land rights and land improvements/construction in progress	$ 268,166	$ 108,136	$ 42,960	$ 42,960	$ 311,126	$ 151,096
Buildings and improvements	649,522	637,101	56,845	60,213	706,367	697,314
Infrastructure	983,311	1,003,387	-	-	983,311	1,003,387
Distribution & collection systems	-	-	7,294,909	7,530,057	7,294,909	7,530,057
Machinery & equipment	182,940	279,874	120,149	144,006	303,089	423,880
Net Capital Assets	$ 2,083,939	$ 2,028,498	$ 7,514,863	$ 7,777,236	$ 9,598,802	$ 9,805,734

Additional information on the City of Montgomery's capital assets can be found in Note III-D on pages 43 and 44 of this report.

Debt Administration

At the end of the current fiscal year, the City of Montgomery had a total bonded debt and capital leases payable, contracts payable, and accrued compensated absences of $6,919,163. Of this amount, $3,490,907 comprises revenue bonded debt backed by the revenues of the Gas, Water and Sewer departments.

Outstanding Debt at Year End
Revenue Bonds, Special Assessment Debt and Capital Lease

The following table provides a summary of the City's outstanding debt at June 30, 2013, with comparative figures for June 30, 2012:

Capital Assets At Year-End
Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Capital lease obligations	$ -	$ -	$ 2,245,000	$ 1,125,000	$ 2,245,000	$ 1,125,000
Notes payable	1,093,726	1,148,146	41,041	80,916	1,134,767	1,229,062
Bonds payable	-	-	2,045,344	2,195,740	2,045,344	2,195,740
DNR loan payable	-	-	1,445,563	1,576,812	1,445,563	1,576,812
Accrued compensated absences	41,400	36,862	7,089	8,728	48,489	45,590
Net Capital Assets	$ 1,135,126	$ 1,185,008	$ 5,784,037	$ 4,987,196	$ 6,919,163	$ 6,172,204

During the fiscal year, the City's total debt increased by $746,959 or 12.1%. The increase was due to additional financing to pay off other debts (with no payoff until February 2014) less scheduled debt payments.

Additional information on the City of Montgomery's debt can be found in Notes III-F and III-G on pages 44-51 of this report.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Montgomery, Missouri, Attn: Steven Deves, City Clerk or Linda Block, Deputy City Clerk, 723 N. Sturgeon St., Montgomery City, Missouri 63361.

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 326,940	$ 702,125	$ 1,029,065
Investments	57,693	581,111	638,804
Taxes receivable	153,240	-	153,240
Accounts receivable, net	23,620	69,052	92,672
Intergovernmental receivables	6,727	-	6,727
Inventories	-	69,138	69,138
Prepaid insurance	10,868	8,189	19,057
Other assets-real estate for resale	961,198	-	961,198
Total Current Assets	1,540,286	1,429,615	2,969,901
Non Current Assets:			
Restricted Assets:			
Cash and cash equivalents	25,419	212,972	238,391
Investments	-	2,711,186	2,711,186
Total Restricted Assets	25,419	2,924,158	2,949,577
Bond issuance costs, net of accumulated amortization	-	65,794	65,794
Capital assets:			
Land	94,500	42,960	137,460
Construction in progress	173,666	-	173,666
Other capital assets, net of accumulated depreciation	1,815,773	7,471,903	9,287,676
Net Capital Assets	2,083,939	7,514,863	9,598,802
Total Noncurrent Assets	2,109,358	10,504,815	12,614,173
Total Assets	3,649,644	11,934,430	15,584,074
LIABILITIES			
Current Liabilities:			
Notes payable	828,599	41,041	869,640
Accounts payable	44,424	25,111	69,535
Accrued liabilities	5,662	1,667	7,329
Payable From Segregated Funds:			
Interest payable	-	88,103	88,103
Bonded debt due within one year	-	175,000	175,000
Refundable deposits	7,725	85,653	93,378
Certificates of participation due within one year	-	1,145,000	1,145,000
DNR loan fund due within one year	-	134,883	134,883
Total Current Liabilities	886,410	1,696,458	2,582,868
Noncurrent Liabilities:			
Obligation for solid waste landfill	139,425	-	139,425
Certificates of participation	-	1,100,000	1,100,000
Notes payable	265,127	-	265,127
Bonds payable	-	1,870,344	1,870,344
DNR loan fund	-	1,310,680	1,310,680
Compensated absences	41,400	7,089	48,489
Total Noncurrent Liabilities	445,952	4,288,113	4,734,065
Total Liabilities	1,332,362	5,984,571	7,316,933
NET POSITION			
Net investment in capital assets	1,766,117	2,944,790	4,710,907
Restricted but expendable for (except as noted):			
Debt service	17,694	1,586,271	1,603,965
Other purposes	299,635	-	299,635
Unrestricted	233,836	1,418,798	1,652,634
Total Net Position	$ 2,317,282	$ 5,949,859	$ 8,267,141

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Governmental Actvities:							
General government	$ 391,185	$ 57,229	$ -	$ 160,030	$ (173,926)	$ -	$ (173,926)
Public works	628,569	14,640	13,490	4,484	(595,955)	-	(595,955)
Public safety	439,459	63,559	18,836	-	(357,064)	-	(357,064)
Solid waste	372,311	403,568	-	-	31,257	-	31,257
Parks	60,502	-	-	-	(60,502)	-	(60,502)
Community planning/economic development	104,218	-	-	-	(104,218)	-	(104,218)
Interest on long -term debt	26,880	-	-	-	(26,880)	-	(26,880)
Total Governmental Activities	2,023,124	538,996	32,326	164,514	(1,287,288)	-	(1,287,288)
Business-Type Activities:							
Water and waste water	927,805	1,054,055	-	-	-	126,250	126,250
Gas	623,098	734,471	-	-	-	111,373	111,373
Total Business-Type Activities	1,550,903	1,788,526	-	-	-	237,623	237,623
Total Primary Government	$ 3,574,027	$ 2,327,522	$ 32,326	$ 164,514	$ (1,287,288)	$ 237,623	$ (1,049,665)

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont'd)
YEAR ENDED JUNE 30, 2013

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes, levied for general purpose	$ 197,827	$ -	$ 197,827
Property taxes, levied for library	150,255	-	150,255
Sales tax	302,937	-	302,937
Sales tax, restricted for street	140,099	-	140,099
Vehicle sales taxes	101,914	-	101,914
Other taxes	287,649	-	287,649
Interest income	3,687	74,325	78,012
Miscellaneous	21,378	-	21,378
Transfers	197,260	(197,260)	-
Total general revenues and transfers	1,403,006	(122,935)	1,280,071
Change in net position	115,718	114,688	230,406
Net position - beginning	2,201,564	5,835,171	8,036,735
Net position - ending	$ 2,317,282	$ 5,949,859	$ 8,267,141

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	$ 270,639	$ 56,301	$ 326,940
Investments	-	57,693	57,693
Taxes receivable	107,155	46,085	153,240
Accounts receivable, net	23,620	-	23,620
Intergovernmental receivable-grants	-	6,727	6,727
Prepaid insurance	10,327	541	10,868
Other assets-real estate for resale	961,198	-	961,198
Restricted assets:			
Cash and cash equivalents	7,725	17,694	25,419
Total Assets	$ 1,380,664	$ 185,041	$ 1,565,705
LIABILITIES			
Notes payable	$ 822,184	$ -	$ 822,184
Accounts payable	37,848	6,576	44,424
Accrued expenses	5,108	554	5,662
Customer deposits	7,725	-	7,725
Compensated absences	39,805	1,595	41,400
Total Liabilities	912,670	8,725	921,395
FUND BALANCES			
Nonspendable			
Real estate for resale	255,294	-	255,294
Prepaid expenses	10,327	541	10,868
Assigned to public safety	2,853	-	2,853
Assigned to public works	59,989	-	59,989
Assigned to library	-	135,927	135,927
Assigned to cemetery	-	99,107	99,107
Assigned to library corporation	-	18,144	18,144
Unassigned	139,531	(77,403)	62,128
Total Fund Balances	467,994	176,316	644,310
Total Liabilities and Fund Balances	$ 1,380,664	$ 185,041	$ 1,565,705

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balance - total governmental funds	$	644,310
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities of $3,854,146, net of accumulated depreciation of $1,770,207 are not financial resources and, therefore, are not reported in the funds.		2,083,939
Long-term liabilities of $271,542 (including Library Corporation short-term portion of long-term debt of $6,415) are not due and payable in the current period and are not reported in the funds.		(271,542)
Long-term obligation for the solid waste landfill of $139,425 is not due and payable in the current period and is not reported in the funds.		(139,425)
Net Position of Governmental Activities	$	2,317,282

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Other Governmental Funds	Total
REVENUES			
Property taxes	$ 197,827	$ 150,255	$ 348,082
Sales tax	302,937	140,099	443,036
Railroad, utility and intangible taxes	261,427	12,138	273,565
Cigarette tax	14,084	-	14,084
Motor fuel and vehicle taxes	101,914	-	101,914
Intergovernmental	169,030	11,776	180,806
Charges for services	430,604	11,239	441,843
Fines and forfeits	53,518	-	53,518
Licenses, permits and feees	29,597	1,020	30,617
Interest	2,569	1,118	3,687
Donations	9,836	6,198	16,034
Miscellaneous	10,710	21,140	31,850
Total Revenues	1,584,053	354,983	1,939,036
EXPENDITURES			
Current			
General government	380,293	-	380,293
Public works	322,252	218,807	541,059
Public safety	423,998	-	423,998
Solid waste	383,036	-	383,036
Parks	47,399	-	47,399
Community planning/economic development	74,530	-	74,530
Debt service	15,425	17,616	33,041
Capital outlay	160,030	52,065	212,095
Total Expenditures	1,806,963	288,488	2,095,451
Excess (Deficit) of Revenues over Expenditures and Other Sources (Uses)	(222,910)	66,495	(156,415)
OTHER FINANCING SOURCES AND USES			
Sale of property	596	1,950	2,546
Transfer to Cemetery Association	-	-	-
Transfers in	248,388	-	248,388
Transfers out	-	(51,128)	(51,128)
Net Other Financing Sources and Uses	248,984	(49,178)	199,806
Net Change in Fund Balances	26,074	17,317	43,391
Fund Balance, beginning of year	441,920	158,999	600,919
Fund Balance, end of year	$ 467,994	$ 176,316	$ 644,310

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds		$ 43,391
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:		
Capital outlay	212,095	
Depreciation expense	(156,654)	
Excess of capital outlay over depreciation expense		55,441
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Library corporation loan principal payments		6,161
The City was required to report a long-term obligation for the closure of a solid waste landfill. Related costs are reported as expenditures in governmental funds. However, in the Statement of Activities, the reduction of the obligation is a reimbursement of costs.		10,725
Change in Net Position of Governmental Activities		$ 115,718

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Property taxes	$ 200,000	$ 197,827	$ 197,827	$ -
Sales tax	325,000	302,937	302,937	-
Railroad, utility and intangible taxes	261,600	261,427	261,427	-
Cigarette tax	15,000	14,084	14,084	-
Motor fuel and vehicle taxes	96,500	101,914	101,914	-
Intergovernmental	209,000	169,030	169,030	-
Charges for services	424,250	430,604	430,604	-
Fines and forfeits	49,000	53,518	53,518	-
Licenses, permits and fees	29,900	29,597	29,597	-
Interest	-	2,569	2,569	-
Donations	100	9,836	9,836	-
Miscellaneous	10,000	10,710	10,710	-
Total Revenues	1,620,350	1,584,053	1,584,053	-
EXPENDITURES				
Current				
General government	373,680	380,293	380,293	-
Public works	314,350	322,252	322,252	-
Public safety	433,630	423,998	423,998	-
Solid waste	359,500	383,036	383,036	-
Parks	38,950	47,399	47,399	-
Community planning/ economic development	95,100	74,530	74,530	-
Debt service	31,200	15,425	15,425	-
Capital Outlay	200,000	160,030	160,030	-
Total Expenditures	1,846,410	1,806,963	1,806,963	-
Excess (Deficit) of Revenues over Expenditures	(226,060)	(222,910)	(222,910)	-
OTHER FINANCING SOURCES (USES)				
Sale of property	24,000	596	596	-
Transfers in	202,260	248,388	248,388	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	226,260	248,984	248,984	-
Net Change in Fund Balances	200	26,074	26,074	$ -
Fund Balance - beginning of year	441,920	441,920	441,920	
Fund Balance - end of year	$ 442,120	$ 467,994	$ 467,994	

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Water & Waste Water Fund	Gas Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 420,041	$ 282,084	$ 702,125
Investments	367,838	213,273	581,111
Accounts receivable, net	55,106	13,946	69,052
Inventories	50,838	18,300	69,138
Prepaid insurance	6,529	1,660	8,189
Total Current Assets	900,352	529,263	1,429,615
Restricted Assets:			
Restricted cash	173,515	39,457	212,972
Restricted investments	2,711,186	-	2,711,186
Total Restricted Assets	2,884,701	39,457	2,924,158
Deferred charges-revenue bond issuance costs	65,794	-	65,794
Fixed Assets:			
Land	34,149	8,811	42,960
Construction in progress	-	-	-
Buildings and improvements	61,143	50,484	111,627
Machinery and equipment	468,007	150,279	618,286
Distribution and collection systems	10,341,058	664,850	11,005,908
Less: Accumulated depreciation	(3,639,539)	(624,379)	(4,263,918)
Net Fixed Assets	7,264,818	250,045	7,514,863
Total Assets	$ 11,115,665	$ 818,765	$ 11,934,430
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 9,700	$ 15,411	$ 25,111
Accrued expenses	1,061	606	1,667
Notes payable	29,689	11,352	41,041
Current Liabilities Payable From Restricted Cash:			
Customer deposits	46,196	39,457	85,653
Interest payable	88,103	-	88,103
Revenue bonds due within one year	175,000	-	175,000
Certificates of participation due within one year	1,145,000	-	1,145,000
DNR loan fund payable within one year	134,883	-	134,883
Total Current Liabilities	1,629,632	66,826	1,696,458
Non-Current Liaibilities:			
Certificates of participation	1,100,000	-	1,100,000
Bonds payable	1,870,344	-	1,870,344
DNR loan fund	1,310,680	-	1,310,680
Compensated absences	3,941	3,148	7,089
Total Non-Current Liabilities	4,284,965	3,148	4,288,113
Total Liabilities	5,914,597	69,974	5,984,571
NET POSITION			
Net investment in capital assets	2,694,745	250,045	2,944,790
Restricted but expendable for debt service	1,586,271	-	1,586,271
Unrestricted	920,052	498,746	1,418,798
Total Net Position	$ 5,201,068	$ 748,791	$ 5,949,859

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF OPERATING REVENUES, OPERATING EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Water & Waste Water Fund	Gas Fund	Total
Operating Revenues:			
Charges for services	$ 1,040,179	$ 722,834	$ 1,763,013
Other	13,876	11,637	25,513
Total operating revenues	1,054,055	734,471	1,788,526
Operating Expenses:			
Personnel services	168,388	97,035	265,423
Contractual services	34,373	457,943	492,316
Repairs and maintenance	78,920	7,801	86,721
Insurance	17,545	-	17,545
Sales tax	11,673	16,217	27,890
Utilities	88,904	10,302	99,206
Other supplies and expenses	84,601	14,666	99,267
Depreciation and amortization	266,050	18,226	284,276
Total operating expenses	750,454	622,190	1,372,644
Operating Income	303,601	112,281	415,882
Nonoperating Revenue (Expenses):			
Interest revenue	73,686	639	74,325
Interest expense	(177,351)	(908)	(178,259)
Total nonoperating revenue (expense)	(103,665)	(269)	(103,934)
Net Income Before Transfers	199,936	112,012	311,948
Transfers			
Transfer out	(117,000)	(80,260)	(197,260)
Total Transfers	(117,000)	(80,260)	(197,260)
Change in Net Position	82,936	31,752	114,688
Net position - beginning of year	5,118,132	717,039	5,835,171
Net position - end of year	$ 5,201,068	$ 748,791	$ 5,949,859

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Water & Waste Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 1,042,804	$ 727,332	$ 1,770,136
Payments to suppliers and contractors	(323,205)	(502,882)	(826,087)
Payments to and on behalf of employees	(169,501)	(97,414)	(266,915)
Receipts(payments) of customer deposits (net)	2,325	171	2,496
Net cash provided (used) by operating activities	552,423	127,207	679,630
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(117,000)	(80,260)	(197,260)
Net cash provided (used) by noncapital financing activities	(117,000)	(80,260)	(197,260)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(18,835)	-	(18,835)
Proceeds from capital debt	1,129,656	-	1,129,656
Principal paid on capital debt	(380,095)	(11,029)	(391,124)
Interest paid on capital debt	(177,345)	(908)	(178,253)
Net cash provided (used) by capital and related financing activities	553,381	(11,937)	541,444
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment assets	792,537	214,359	1,006,896
Purchase of investments	(1,723,331)	(213,273)	(1,936,604)
Interest	73,686	639	74,325
Net cash provided (used) by investing activities	(857,108)	1,725	(855,383)
Net increase (decrease) in cash and cash equivalents	131,696	36,735	168,431
Balances - beginning of year	461,860	284,806	746,666
Balances - end of year	$ 593,556	$ 321,541	$ 915,097
DISPLAYED AS:			
Cash and cash equivalents	$ 420,041	$ 282,084	$ 702,125
Restricted cash	173,515	39,457	212,972
	$ 593,556	$ 321,541	$ 915,097

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS (CONT'D)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Water & Waste Water Fund	Gas Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ 303,601	$ 112,281	$ 415,882
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	266,050	18,226	284,276
Change in assets and liabilities:			
Receivables, net	(11,251)	(7,139)	(18,390)
Inventories	1,394	466	1,860
Prepaid insurance	(6,529)	(1,660)	(8,189)
Accounts and other payables	(2,054)	5,241	3,187
Accrued expenses	69	78	147
Compensated absences payable	(1,182)	(457)	(1,639)
Customer deposits	2,325	171	2,496
Total adjustments	248,822	14,926	263,748
Net cash provided by operating activities	$ 552,423	$ 127,207	$ 679,630

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Employee Deferred Compensation Fund
ASSETS	
Investments, at fair value	
Mutual stock funds	49,301
Total Assets	$ 49,301
Net Position Held in Trust for Future Compensation	$ 49,301

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013

	Employee Deferred Compensation Fund
ADDITIONS	
Contributions	
Employer/employee	$ 2,060
Total contributions	2,060
Investment earnings	
Net increase (decrease) in fair value of investments	3,536
Net investment earnings	3,536
Total Additions	5,596
DEDUCTIONS	
Total Deductions	-
Change in net position	5,596
Net position, beginning of year	43,705
Net position, end of year	$ 49,301

See notes to financial statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Montgomery, Missouri (the "City") is a municipal corporation governed by an elected mayor and board of aldermen. The City receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

B. Financial Reporting Entity

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus", and includes all component units of which the City appointed a voting majority of the units' board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. Based on this criteria, the Montgomery City Library Corporation is considered a potential component unit.

Blended Component Unit

The Montgomery City Library Corporation is a not-for-profit corporation governed by a board of directors which is the same as the City's library board and which is appointed by the City Council. The purpose of the corporation is solely to benefit the City's library. The corporation's fiscal year ends June 30. Complete financial statements for the component unit may be obtained at the City's administrative office.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City complies with Generally Accepted Accounting Principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City has elected to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 30, 1989 for their proprietary operations, unless these pronouncements or interpretations conflict with applicable GASB guidance or pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the fiscal year ended September 30, 2004.

The City's basic financial statements include the accounts of all City operations.

C. Basis of Presentation

Government-Wide Financial Statements:
The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, utilities, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, utilities, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc). The City does not allocate indirect costs.

Fund Financial Statements:
Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

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

Special Revenue Fund: The special revenue funds account for revenue sources that are legally restricted to expenditures for specified purposes. The Street, Library, Cemetery, and Library Corporation Funds are special revenue funds of the City.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds

Enterprise Funds: Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Water and Waste Water Fund and the Gas Fund.

Fiduciary Funds

Fiduciary funds financial statements include the statement of net position and statement of changes in net position. The statement of net position includes information about the assets held in an agency capacity. The reporting entity includes the Employee Deferred Compensation Fund.

D. Fund Accounting

Governmental Funds

The City reports the following major governmental funds:

General Fund
The General Fund is used to account for all revenues and expenditures of the City not accounted for in other funds. It is an operating fund from which most current operations are financed. It is required by law to operate in accordance with a formal budget.

Proprietary Funds

The City reports the following major enterprise funds:

Water and Waste Water Fund
The Water and Waste Water Fund accounts for the operating activities of the City's water and waste water utilities services.

Gas Fund
The Gas Fund accounts for the operating activities of the City's gas utilities services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Funds

The City also reports the following governmental fund types:

Street Fund
The Street Fund accounts for the operating activities of the City's streets. This is reported with governmental activities in the government-wide statements.

Cemetery Fund
The Cemetery Fund accounts for the operating activities of the City's cemetery. This is reported with governmental activities in the government-wide statements.

Library Fund
The Library Fund accounts for the operating activities of the City's library. This is reported with governmental activities in the government-wide statements.

Library Corporation Fund
The Library Corporation Fund accounts for the activities of the corporation which receives grants and donations for the library.

The City also reports the following fiduciary fund type:

Employee Deferred Compensation Fund
The Employee Deferred Compensation Fund accounts for assets held by the City which are for employees who defer a portion of their compensation under the provisions of Internal Revenue Code Section 457. Agency funds are custodial funds (assets equal liabilities); therefore, they do not involve measurement of operations. All amounts of compensation deferred under the plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in the amount equal to the fair market value of the deferred account for each participant. All assets of the plan are reported at fair market value.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurement made, regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position. The City applies all applicable FASB pronouncements that do not conflict with or contradict GASB pronouncements.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

F. Assets, Liabilities and Equity

Cash and Investments

Cash of all funds are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled Cash and Cash Investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be "cash equivalents".

For the purpose of the Statement of Net Position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note III-A.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note III-H for details of interfund transactions.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of receivables.

Prepaid Items

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

Inventory

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:
In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Prior to October 1, 2003, the governmental funds' infrastructure assets were not capitalized.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of $5,000 is used to report capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. When capital assets are disposed, the costs and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The range of estimated useful lives by types of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Distribution and collection systems	10-50 years
Infrastructure	25-50 years

Fund Financial Statements:
In the fund financial statements fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to revenue bond trustee accounts and utility meter deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of certificates of participation, notes payable, revenue bonds payable and capital leases payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The City of Montgomery provides paid sick leave to all regular, full-time employees for periods of temporary absence due to illness or injury. All regular, full-time employees accrue sick leave benefits at the rate of 8 hours per month. Employees may accumulate a maximum of 1,000 hours of sick leave. Upon retirement, any unused sick leave will be paid at a 20% ratio of unused sick leave remaining at regular pay rates. Upon termination of employment (other than retirement), any unused sick leave will be paid at a 10% ratio of unused sick leave remaining at regular pay rates. Accumulated, but unused sick pay is not material and is accordingly, charged to operations when paid.

Vacation pay accumulates at varying rates based on length of employment. Employees are permitted to accumulate 10 days of vacation leave from one anniversary year to the next. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of employment.

Capital Leases

Property, plant and equipment financed by capital leases are reflected as assets and corresponding liabilities in the government-wide statements and the related depreciation expense is provided on the same basis as assets financed with other resources.

Equity Classifications

Government-wide Statements:
Equity is classified as net position and displayed in three components:

a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Equity – Fund Financial Statements:
Governmental fund equity is classified as fund balance. Beginning with FY 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Management has determined there are nonspendable fund balances as detailed in Note III-J.

- Restricted: This classification includes amounts for which constraints have been placed on the use of resources because they are either:

    - Externally imposed by creditors (such as through debt convenants), grantors, contributors, or laws or regulations of other governments; or
    - Imposed by law through constitutional provisions or enabling legislation.

Management has determined there are no amounts that should be considered restricted.

- Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City's board of directors, which is the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the board of directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of year-end.

- Assigned: This classification includes spendable amounts that are reported in governmental funds *other than the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose in accordance with the provisions of GASB Statement 54. The intent of an assigned fund balance should be expressed by either the City's board of directors, or a subordinate high-level body, such as a finance committee, or an official, such as the executive director, that has the authority to assign amounts to be used for specific purposes. The City's management assigned funds during year as detailed in Note III-J.

- Unassigned: This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

When fund balance resources are available for a specific purpose in multiple classifications, the City would use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed. However, it reserves the right to selectively spend unassigned resources first and to defer to the use of the other classified funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues, Expenditures, and Expenses

Program Revenues

In the statement of activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General Government	Licenses and permits; operating grant from the Missouri Department of Social Services
Public Works	Commercial vehicle and gasoline excise tax shared by the State; cemetery lot sales and permits; library fees and operating grants and contributions
Public Safety	Fine revenue; operating and capital grants from the Missouri Department of Public Safety
Solid Waste	Fees
Parks	None
Community Planning/ Economic Development	Community development block grants

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Function

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

H. Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Missouri or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III-A, all deposits were fully insured or collateralized.

B. Budget Basis of Accounting

The City of Montgomery prepares its annual budget on a basis (budget basis), which agrees with generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual to provide a meaningful comparison of actual results with the budget.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, net position, revenues, and expenditures/expenses.

A. Deposits and Investments

Deposits:

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Missouri or its agencies and instrumentalities that have a market value of not less than the principal amount of the uninsured deposits.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and invested cash." In addition, investments are separately held by several of the City's funds. Deposits and investments are stated at cost. Invested cash consists of certificates of deposit and U.S. Government securities.

Income from investment of pooled cash is allocated to the various funds based on the fund's balance in the pooled account.

At year-end, the carrying amount of the City's deposits (checking and savings accounts and certificates of deposit) was $1,940,660 and the bank balance was $1,962,707. Of the bank balance, $736,623 was covered by federal depository insurance or by collateral held by the City's agent in the City's name and $1,226,084 was covered by collateral held in the pledging bank's trust department or by its agent in the City's name. There were no uninsured and uncollateralized deposits.

Interest rate risk. As a means of limiting exposure to fair value losses arising from rising interest rates, the City's investment policy mandates structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby avoiding the need to sell securities on the open market prior to maturity. The investment policy also mandates investing operating funds primarily in U.S. Treasury securities.

Credit risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2013, the City's investments are U.S. Treasury securities.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Custodial credit risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To minimize custodial credit risk, it is the City's policy that all securities purchased be perfected in the name of or for the account of the City's and be held by a third-party custodian as evidenced by appropriate safekeeping receipts.

Concentration of Credit Risk. As a means of limiting its exposure to losses arising from concentration of investments, the City's investment policy is to invest only in U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. Government.

Investments:

The City may purchase any investments allowed by the State Treasurer. These include (1) obligations of the United States government or any agency or instrumentality thereof maturing and becoming payable not more than three years from the date of purchase, or (2) repurchase agreements maturing and becoming payable within ninety days secured by U. S. Treasury obligations or obligations of U. S. government agencies or instrumentalities of any maturity, as provided by law.

Investments are stated at market value and all investment activities are conducted through the depository bank and the City's financial advisor. Investments made by the City are summarized below.

	Carrying Amount	Market Value
U.S. Government Securities	$ 2,676,786	$ 2,676,786
	$ 2,676,786	$ 2,676,786

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

At June 30, 2013, deposits and investments held by the City are as follows:

	Maturity Date	Carrying Value
Deposits:		
Demand deposits and money market accounts		$ 1,267,456
Time deposits	July 1, 2014	71,770
Time deposits	September 9, 2013	33,419
Time deposits	July 13, 2013	417,334
Time deposits	June 29, 2014	57,693
Time deposits	November 13, 2014	18,988
Time deposits	March 25, 2014	74,000
Total Time Deposits		673,204
Investments:		
U.S. federal obligations	June 30, 2023	1,621,690
	January 31, 2014	1,052,711
Money market funds		2,385
Total Investments		2,676,786
Total deposits and investments		$ 4,617,446
Investments - Mutual stock funds		$ 49,301
Reconciliation of Statement of Net Position:		
Current:		
Cash and cash equivalents		$ 1,029,065
Investments		638,804
Total Current		1,667,869
Restricted:		
Cash and cash equivalents		238,391
Investments		2,711,186
Total Noncurrent		2,949,577
Total		$ 4,617,446

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

At June 30, 2013, cash of the Enterprise Funds was restricted for the purposes below. Amounts restricted for debt service, construction, and operations, maintenance and depreciation are in accordance with revenue bond ordinances.

	Water and Wastewater Fund	Gas Fund	Total
Debt service and reserve	$ 1,674,374	$ -	$ 1,674,374
Renewal and replacement	34,400	-	34,400
Bond escrow and revenue	1,129,731	-	1,129,731
Refundable deposits	46,196	39,457	85,653
Total	$ 2,884,701	$ 39,457	$ 2,924,158

	Water and Wastewater Fund	Gas Fund	Total
Cash and cash equivalents			
Unrestricted	$ 420,041	$ 282,084	$ 702,125
Restricted	173,515	39,457	212,972
Total	593,556	321,541	915,097
Invested cash			
Unrestricted	367,838	213,273	581,111
Restricted	2,711,186	-	2,711,186
Total	3,079,024	213,273	3,292,297
Total	$ 3,672,580	$ 534,814	$ 4,207,394
Total Cash and Invested Cash			
Unrestricted	$ 787,879	$ 495,357	$ 1,283,236
Restricted	2,884,701	39,457	2,924,158
Total	$ 3,672,580	$ 534,814	$ 4,207,394

The restricted assets of the governmental funds represent customer utility deposits and cash reserved by the Library Corporation for debt repayment and asset replacement and extension.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

The restricted assets can be used only for the following:

Customer deposits - Refunds of utility deposits to customers discontinuing solid waste service (General Fund)	$	7,725
Debt service account - Payment of principal and interest only on loans (Library Corporation Fund)		8,847
Replacement and extension account - Payments for replacement and/or extensions of Library Corporation Fund fixed assets		8,847
Total Governmental Funds and Activities Restricted Funds	$	25,419

Other Assets – Real Estate for Resale

The City has purchased property to be used for development within the City. The acquisition cost of the property at June 30, 2013, as recorded on the Government-Wide Statement of Net Position was $961,198. Notes payable for which these properties are held as collateral total $705,904.

B. Receivables

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities consist of miscellaneous receivables. Receivables detail at June 30, 2013, is as follows:

The City provides an allowance for doubtful accounts based upon a review of existing receivables. Based on prior experience of collectability the accounts receivable have been adjusted as follows:

	Governmental Activities	Business-Type Activities	Total
Total accounts receivable	$ 44,531	$ 180,908	$ 225,439
Less: Allowance for uncollectible accounts	(20,911)	(111,856)	(132,767)
Net accounts receivable	$ 23,620	$ 69,052	$ 92,672

C. Taxes Receivable

Taxes receivable of the governmental activities consist of property, sales, franchise, gas and motor vehicle tax receivable. Receivables detail at June 30, 2013 was as follows:

	Governmental Activities
Taxes receivable	$ 153,240
Allowance for uncollectible accounts	-
Net accounts receivable	$ 153,240

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

D. Capital Assets

Capital asset activity, for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities:	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets not being depreciated:				
Land	$ 94,500	$ -	$ -	$ 94,500
Construction in progress	13,636	160,030	-	173,666
	108,136	160,030	-	268,166
Capital assets being depreciated:				
Buildings and improvements	930,184	-	-	930,184
Machinery, equipment and furniture	1,131,960	-	(36,362)	1,095,598
Infrastructure	1,508,133	52,065	-	1,560,198
	3,570,277	52,065	(36,362)	3,585,980
Total capital assets at historical costs	3,678,413	212,095	(36,362)	3,854,146
Less accumulated depreciation:				
Buildings and improvements	(293,083)	(23,941)	36,362	(280,662)
Machinery, equipment and furniture	(852,086)	(60,572)	-	(912,658)
Infrastructure	(504,746)	(72,141)	-	(576,887)
Total accumulated depreciation	(1,649,915)	(156,654)	36,362	(1,770,207)
Net capital assets being depreciated	1,920,362	(104,589)	-	1,815,773
Net capital assets	$ 2,028,498	$ 55,441	$ -	$ 2,083,939

Business-Type Activities:	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets not being depreciated:				
Land	$ 42,960	$ -	$ -	$ 42,960
Construction in progress	-	-	-	-
	42,960	-	-	42,960
Capital assets being depreciated:				
Buildings and improvements	111,627	-	-	111,627
Machinery, equipment and furniture	618,286	-	-	618,286
Distribution and collection systems	10,987,073	18,835	-	11,005,908
	11,716,986	18,835	-	11,735,821
Total capital assets at historical costs	11,759,946	18,835	-	11,778,781
Less accumulated depreciation:				
Buildings and improvements	(51,414)	(3,368)	-	(54,782)
Machinery, equipment and furniture	(474,280)	(23,857)	-	(498,137)
Distribution and collection systems	(3,457,016)	(253,983)	-	(3,710,999)
Total accumulated depreciation	(3,982,710)	(281,208)	-	(4,263,918)
Net capital assets being depreciated	7,734,276	(262,373)	-	7,471,903
Net capital assets	$ 7,777,236	$ (262,373)	$ -	$ 7,514,863

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:	
General	$ 10,892
Public works	87,510
Public safety	15,461
Parks	13,103
Community planning/economic development	29,688
Total depreciation expense for governmental activities	$ 156,654
Business-Type Activities:	
Water and waste water	$ 262,982
Gas	18,226
Total depreciation expense for business-type activities	$ 281,208

E. Accounts Payable

Payables in the governmental funds are composed of payables to vendors (89%) and accrued salaries and benefits (11%). Payables of Enterprise Funds are composed of payables to vendors (94%) and accrued salaries and benefits (6%).

F. Short-term Notes

Changes in Short-Term Debt:

The following is a summary of changes in short-term debt for the year ended June 30, 2013:

Type of Debt	Balance at June 30, 2012	Additions	Reduction	Balance at June 30, 2013
Governmental Activities - Notes payable	$ 870,489	$ 2,822	$ 51,127	$ 822,184
Business-Type Activities	$ 80,916	$ -	$ 39,875	$ 41,041

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

In December 1996 the City entered into a short-term note to finance the purchase of land for a business park. The City plans to sell off tracts of land to businesses who wish to build in the business park. The real estate was pledged as collateral for the note amount of $469,000. The note has been renewed various times over the past several years as required by the bank. The note was renewed once again on June 29, 2013, and will mature on June 27, 2014. The unpaid principal balance will bear interest at an annual rate equal to the prime rate announced by the bank. At June 30, 2013, the interest rate was 2.5%. There were no principal payments made during the fiscal year ended June 30, 2013. At June 30, 2013, the note had a principal balance of $129,198.

On June 27, 2013, the City borrowed $415,124 secured by developed real estate land. The loan is due June 27, 2014 and the interest rate is 2.50%. The balance at June 30, 2013 is $415,124.

On June 1, 2013, the City borrowed $70,000 at 2.25%, with a maturity of June 1, 2014. Certificate of deposit number 34324 is held as collateral. The balance at June 30, 2013 is $70,000.

On June 1, 2010, the City borrowed $161,582 from the Montgomery City Growth, Inc. at 0% for the purchase of developed land. The loan matures upon the sale of the property. The balance at June 30, 2013 is $161,582.

On July 13, 2009, the City borrowed $400,000 to finance street paving, watermain replacement, and the purchase of a backhoe and tractor. The loan is due July 13, 2013, and the interest rate is 2.35%. The repayment of the loan is made from the Street Fund (53%), Water (20.5%) and Sewer Fund (13.5%) and the Gas Fund (13%). The balance at June 30, 2013 is $87,321 and interest paid during 2012-2013 was $3,135. Certificate of deposit #201089 is held as collateral.

The debt balance at June 30, 2013 is reported in the following funds as shown:

General	$ 46,280	(governmental)
Water and Sewer	29,689	
Gas	11,352	
	41,041	(business-type)
Total	$ 87,321	

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

G. Long-term Debt

Changes in long-term debt:

The following is a summary of changes of long-term debt for the year ended June 30, 2013:

Type of Debt	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 277,703	$ -	$ 6,161	$ 271,542	$ 6,415
Accrued compensated absences	36,862	4,538	-	41,400	-
Total General Long-Term Debt	$ 314,565	$ 4,538	$ 6,161	$ 312,942	$ 6,415
Business-Type Activities:					
Bonds Payable	$ 2,195,740	$ -	$ 150,396	$ 2,045,344	$ 175,000
Certificates of Participation	1,125,000	1,170,000	50,000	2,245,000	1,145,000
DNR Loan Payable	1,576,812	-	131,249	1,445,563	134,883
Accrued Compensated Absences	8,728	-	1,639	7,089	-
Total Enterprise Fund Debt	$ 4,906,280	$ 1,170,000	$ 333,284	$ 5,742,996	$ 1,454,883

The City issued $3,500,000 of Revenue Bonds on November 1, 2001. The bond proceeds were used to improve and extend the City's Waterworks and Sewerage System. These bonds were approved by the City's voters in November 1997. The following is a summary of bond transactions for the year ended June 30, 2013, for this issue:

	Revenue Bonds Combined Waterworks and Sewerage System 2001 Bond Issue
Bonds payable at June 30, 2013	$ 1,965,000
Less: Current portion due June 30, 2013	(175,000)
Long-term debt at June 30, 2013	$ 1,790,000

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

The Revenue Bonds become due on July 1 in annual installments of $145,000 to $220,000 through July 1, 2022. Bonds bear interest ranging from 3.00% to 5.00%. Principal and interest payments required for each of the next five years and five-year increments to maturity are as follows:

Year Ending June 30,	Annual Rate of Interest	Principal	Interest	Total
2014	5.375%	$ 175,000	$ 97,728	$ 272,728
2015	5.375%	180,000	88,188	268,188
2016	5.375%	180,000	78,512	258,512
2017	5.375%	185,000	68,703	253,703
2018	5.375%	195,000	58,491	253,491
2019-2023	5.375%/5.00%	1,050,000	134,125	1,184,125
Total		$ 1,965,000	$ 525,747	$ 2,490,747

Total long-term debt for the two bond issuances is reported net of unamortized bond premium, discounts, and issuance costs of $57,931. Bond premium, discounts, and issuance costs are amortized over the term of the bonds. A summary of net long-term debt at June 30, 2013, is as follows:

Total Long-Term Debt	$ 1,965,000
Add: Premium	80,344
Net Long-Term Debt	$ 2,045,344

With the issuance of the 2001 Series Bonds, the City is participating in the Missouri Leveraged State Water Pollution Control Revolving Fund Program (the "SRF Program") of the Missouri Department of Natural Resources ("DNR") and the State Environmental Improvement and Energy Resources Authority to provide the most cost effective financing of the extensions and improvements to the City's Waterworks and Sewerage System. DNR is making the revolving fund loan to the City under the Clean Water SRF Program from the available money in the Water and Wastewater Loan Fund.

The revolving fund loan is funded in installments as disbursements are made to the City. Each installment of the revolving fund loan is an amount equal to the reserve percentage (70%) of the sum of the actual reimbursement amount approved by DNR in accordance with the purchase agreement. No interest is payable on the loan.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

The City is responsible for repayment of the revolving fund loan in the following manner. On the date of each payment of the principal amount of the participant bonds or the defeasance, thereof, the trustee (UMB Bank, N.A.) will transfer, from the reserve account to the master trustee (UMB Bank, N.A.), an amount equal to the reserve percentage of the principal amount of the participant bonds paid or deemed paid within the meaning of the ordinance. No transfer will result in the reserve security being less than the reserve percentage of the outstanding principal amount of the participant bonds. The outstanding balance of the revolving loan fund is reduced by the amount of the transfer to the master trustee (UMB Bank, N.A.). During the year ended June 30, 2013, DNR made loan fund payments in the amount of $0 to the City. The City repaid $131,249 during the year ended June 30, 2013, leaving a balance of $1,445,563. The balance in the Series 2001C Montgomery Revenue Account at June 30, 2013 is $1,477,696 and is included in the restricted investments of the Water and Waste Water Fund restricted assets.

Governmental Activities

Library Corporation

On March 6, 2008, the Montgomery Library Corporation borrowed $300,000 from USDA Rural Development for the purchase of the library building from the City of Montgomery in the amount of $310,000. The funds were borrowed at an interest rate of 4.125% per annum, with the principal and interest to be paid over a period of 30 years with the due date of the final installment of March 6, 2038.

A reserve account is to be established in the sum of $3,524 each year until there is accumulated in that account the sum of $35,240. As of June 30, 2013, the debt service account balance was $8,847 and the replacement and extension account balance was $8,847.

Principal and interest payments required for each of the next five years and five-year increments to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	$ 6,415	$ 11,201	$ 17,616
2015	6,680	10,936	17,616
2016	6,955	10,661	17,616
2017	7,242	10,374	17,616
2018	7,541	10,075	17,616
2019-2023	42,634	45,446	88,080
2024-2028	52,182	35,898	88,080
2029-2033	63,870	24,210	88,080
2034-2038	78,023	9,903	87,926
Total	$ 271,542	$ 168,704	$ 440,246

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Certificates of Participation

The changes in obligations for the year ended June 30, 2013 are shown below:

	Balance 6/30/2012	Certificate Proceeds	Principal Paid	Balance 6/30/2013	Interest Paid
Business-Type Activities:					
Water & waste water	$ 1,125,000	$ 1,170,000	$ 50,000	$ 2,245,000	$ 56,160
Gas	-	-	-	-	-
	$ 1,125,000	$ 1,170,000	$ 50,000	$ 2,245,000	$ 56,160

The governmental activities and the business-type activities assets which are subject to these leases have costs as follows:

	Business-Type Activities
Leased property	$ 1,361,652
Leased property accumulated depreciation	(190,064)
Total	$ 1,171,588

Lease - Purchase Agreement

The City entered into a Base Lease and Lease Purchase Obligation as of February 1, 2007, for certain personal property of the City including the clarifier equipment of the City's combined water and sewerage system. This equipment consists of a traveling bridge with scrapers on the bottom of its basin that rotates around a center point, which sits inside a circular concrete structure with steel wire around its circumference.

The City leased the Leased Property to First Bank of Missouri (The Trustee), who then leased the Leased Property back to the City pursuant to a Lease/Purchase Agreement of even date and executed a Declaration of Trust (The Indenture) of the same date under which the Trustee delivered Certificates of Participation (City of Montgomery, Missouri, Lessee) Series 2007 to provide funds to pay the costs of the project and pay the costs of delivering the Series 2007 Certificates.

The term of the base lease commenced on February 1, 2007, and will end on February 1, 2027.

The Trustee leased the personal property back to the City with the City having the right to purchase the property back. Annual payments consisting of a Base Rental representing a Principal component are payable on each February 1 beginning February 1, 2008. There is also a Base Rental payment representing an Interest Component payable on February 1 and August 1. The first payment was on August 1, 2007.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

In addition to the Base Rentals, the City will from time to time be required to pay for certain expenses such as reasonable trustee expenses, maintenance and repairs of the leased property, public liability and workers' compensation insurance and various other costs associated with the property.

If the City is not in default in making payments as discussed above, the City may instruct the Trustee to take all steps that may be necessary under the prepayment provisions of the Indenture to effect the prepayment of all or such part of the then outstanding certificates on such optional prepayment dates as may be specified in writing by the City.

The City has determined the Base Rentals during the Initial Term and any Renewal Term represent the fair value of the Leased Property and that the Option Price represents the fair purchase price of the Trustee's interest in the Leased Property. The City declares that the period during which the City has an option to purchase the Trustee's interest in the Leased Property (that is the maximum term of the Lease including all Renewal Terms) does not exceed the useful life of the Leased Property.

During the term of the Lease, the City covenants and agrees that its responsible officer will include in the budget proposal submitted to the Board of Aldermen a request or requests for an appropriation equal to the Base Rentals and reasonably estimated Supplemental Rent to become due during the next succeeding Renewal Term. If sufficient funds are not appropriated by the Board of Aldermen for the payment of the Base Rental and the Supplemental Rental, and funds are not otherwise legally available for such purposes, the City shall relinquish the Leased Property as of the expiration of the Initial Term or Renewal Term for which funds have been appropriated.

The City may purchase the Trustee's interest in the Leased Property on any Optional Prepayment Date by delivering written notice to the Trustee not less than 60 days prior to the Optional Prepayment Date on which the option is to be exercised. The purchase price to be paid by the City to exercise the option shall be an amount equal to (1) the Option Price applicable on such Optional Prepayment dates as indicated in the Option Price Schedule plus interest, premium, if any, and fees, costs, and expenses which must be paid to prepay the then Outstanding Certificates, less all amounts in reverses held by the Trustee under the Indenture which may be applied to the prepayment of such outstanding Certificates and such other expenses, (2) all costs of transferring the Property to the City and (3) all other reasonable costs and expenses incidental thereto.

Title to the Leased Property will be held in the name of the City, subject of the Base Lease and the Indenture.

The City is under no obligation to exercise its option to purchase the Trustee's interest in the Leased Property.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

The Base Rental Payment and Option Price Schedule follow:

Year Ending June 30,	Principal	Interest	Total
2014	$ 1,075,000	$ 53,735	$ 1,128,735
Total	$ 1,075,000	$ 53,735	$ 1,128,735

Defeased Debt – 2013

On January 30, 2013, the City issued water and wastewater refunding certificates of participation (Series 2013) of $1,170,000 (par value) with an interest rate of 1.25% to 4.000% to advance refund certificates of participation (Series 2007) with an interest rate of 4.85% to 5.10% and a par value of $1,075,000. The Series 2007 certificates mature on July 1, 2022 and are callable on February 1, 2014. The Series 2013 certificates were issued at par and, after paying issuance costs of $17,845 and an underwriter's discount of $22,502, the net proceeds were $1,129,654. The net proceeds from issuance of the Series 2013 certificates were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are to be called on February 1, 2014. The advance refunding does not meet the requirements of an insubstance debt defeasance and the certificates are not removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service requirements by $39,967, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $33,007.

The annual debt service requirements to maturity for the 2013 outstanding certificates of participation at June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	$ 70,000	$ 34,696	$ 104,696
2015	70,000	33,725	103,725
2016	75,000	32,850	107,850
2017	75,000	31,350	106,350
2018	75,000	29,850	104,850
2019-2023	415,000	116,943	531,943
2024	390,000	39,300	429,300
Total	$ 1,170,000	$ 318,714	$ 1,488,714

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

H. Interfund Transfers

The governmental-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

Interfund transfers between funds of the City were as follows:

Disbursing Fund	Receiving Fund	Amount
Library (nonmajor)	General (major)	$ 4,000
Water and wastewater (major)	General (major)	117,000
Gas (major)	General (major)	80,260
Street (nonmajor)	General (major)	46,128
Cemetery (nonmajor)	General (major)	1,000
Total		$ 248,388

The above transfers are budgeted routine transfers.

I. Fund Equity

Restricted Net Position

The following table shows the net position restricted for debt service and for other purposes in the Governmental Activities as shown on the Statement of Net Position:

Activity	Restricted by	Amount
Public safety	Law	$ 2,853
Public works	Law	60,757
Library	Contributors and law	136,878
Cemetery	Contributors and law	99,147
Total Other Purposes		$ 299,635
Debt service-library		$ 17,694

Fund Equity Deficits

Deficit fund balance existed at June 30, 2013 in the Street Fund.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

J. Fund Balance

Classifications of fund balances at June 30, 2013 are as follows:

	Nonspendable	Restricted	Committed	Assigned	Unassigned	Total
Fund Balances:						
General	$ 265,621	$ -	$ -	$ 62,842	$ 139,531	$ 467,994
Street	-	-	-	-	(77,403)	(77,403)
Library	501	-	-	135,927	-	136,428
Cemetery	40	-	-	99,107	-	99,147
Library Corporation	-	-	-	18,144	-	18,144
Total	$ 266,162	$ -	$ -	$ 316,020	$ 62,128	$ 644,310

The City has not adopted a policy that sets forth a minimum fund balance amount.

IV. OTHER INFORMATION

A. Employee Pension Plan

1. Plan Description

The City of Montgomery participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

2. Funding Status

Full-time employees of the City of Montgomery do not contribute to the pension plan. The June 30th statutorily required contribution rates are 3.3% (General), and 3.4% (Police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

IV. OTHER INFORMATION (continued)

3. Annual Pension Cost (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	$	28,847
Interest on net pension obligation		-
Adjustment to annual required contribution		-
Annual pension cost		28,847
Actual contributions		28,847
Increase (decrease) in NPO		-
NPO beginning of year		-
NPO end of year	$	-

The annual required contribution (ARC) was determined as part of the February 28, 2011 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2013 included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Health Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of February 28, 2011 was 9 years for the General division and 13 years for the Police division.

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	$ 11,216	100%	$ —
2012	20,006	100%	—
2013	28,847	100%	—

IV. OTHER INFORMATION (continued)

B. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participants to defer a portion of participants' salary until future years. Participation in the plan is optional and participants elect how the salary deferrals are invested. Investment options include the following: stock funds, bond funds, and money market accounts, including various risk alternatives. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of a general creditor of the City in the amount equal to the fair market value of the deferred account for each participant.

The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

C. Community Development Block Grant

The City is involved in a community development block grant program for industrial infrastructure funds for road and drainage systems with the expansion of Porta-King Building Systems. The total grant for this purpose is $200,000. As of June 30, 2013, the City had requested $173,665 of the grant funds.

D. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

IV. OTHER INFORMATION (continued)

E. Closure of Montgomery City Sanitary Landfill

The City had previously contracted with an operator for the operation of a municipal solid waste landfill. The landfill stopped accepting solid waste in 1992. As part of the agreement, the operator was supposed to close the landfill in accordance with various regulatory requirements. Certain assets were pledged by the contractor in the amount of $102,492 to guarantee its obligation.

The landfill was not closed by the operator in accordance with requirements. Due to violations of the contractual agreements, the City gained control of the pledged assets.

The project engineer estimated the costs to be incurred in each of the next fifteen (15) years for post-closure costs and maintenance of the closed facility is approximately $10,725, which totals $139,425. This amount is subject to review and adjustments annually and has been reflected as a liability in the government-wide statement of net position.

On June 5, 2013, representatives of the Missouri Department of Natural Resources inspected the landfill and determined there were several violations which needed to be corrected. In addition, the representatives determined a penalty would need to be assessed. The penalty would be partially waived as long as the City completed certain corrective actions to return the landfill to compliance. The estimated cost to complete the corrective actions has not been determined.

F. Commitments and Contingencies

1. Grants

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2013, the City believes that disallowed expenditures, if any, based on subsequent audits of grant expenditures will not have a material effect on any of the individual government funds or the overall financial position of the City.

2. Contingent Liabilities

Amounts received or receivable from grantor 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 which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

IV. OTHER INFORMATION (continued)

G. Litigation

Based on confirmation from the City attorney, management believes there are no outstanding matters which will have a material effect on the financial statements of the City.

H. Environmental Matters

The City is also subject to various laws and regulations with respect to environmental matters such as air and water quality. The effect of any future changes in environmental laws and/or regulations cannot be estimated. However, compliance with such changes may necessitate substantial expenditures.

I. Taxes

Assessed values are established by the County Assessor subject to review by the County's Board of Equalization and State Tax Commission. The assessed value for property located in the City as of January 1, 2012 and 2011 on which the fiscal 2012 and 2011 levies were based, were as follows:

	2012	2011
Real estate	$ 33,590,174	$ 33,445,629
Personal property	7,408,025	7,126,187
	$ 40,998,199	$ 40,571,816

The City is permitted by Missouri State Statutes, which encompass certain limitations, to levy taxes for various general governmental services and in unlimited amounts for the payment of principal and interest on general obligation bonded debt. Property tax levies per $100 assessed valuation are as follows:

Fund	2012	2011
General Revenue	$ 0.5110	$ 0.5110
Library	0.3884	0.3884
	$ 0.8994	$ 0.8994

IV. OTHER INFORMATION (continued)

J. Pledged Revenues

The Water and Wastewater Fund and the Library Corporation have pledged future water and wastewater and Library Corporation revenues, net of specified operating expenses, to repay water and wastewater revenue bonds, water and wastewater capital lease obligations and a Library Corporation note payable that were issued for the purpose of water and wastewater improvements and equipment, and the Library Corporation building. The bonds and leases are payable from water and wastewater fund net revenues and are payable through 2027. The note payable is payable from Library Corporation net revenues and is payable through 2038. Annual principal and interest payments in 2013 on the bonds, leases and Library Corporation loan required 60% of net revenues in the water and wastewater fund and 83% of net revenues of the Library Corporation. The total principal and interest remaining to be paid on bonds, leases and note are $5,108,196 for the water and wastewater fund and $440,246 for the Library Corporation. Principal and interest paid for the current year were $383,160 for the water and wastewater fund and $17,616 for the Library Corporation. Total water and wastewater and Library Corporation net revenues for the current year were $643,337 and $21,135, respectively.

K. Consideration of Subsequent Events

Subsequent events have been evaluated through January 24, 2014, which is the date the financial statements are available to be issued. No events requiring disclosure were identified as a result of this review.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2013

The following information is required and presented in accordance with Governmental Accounting Standards Board Statement 27, "*Accounting for Pensions by State and Local Governmental Employers*" (see Note IV-A).

Missouri Local Government Employees Retirement System
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2011	$ 1,129,264	$ 976,886	$ (152,378)	116%	$ 817,264	NA
2/29/2012	1,246,050	1,070,377	(175,673)	116%	833,904	NA
2/28/2013	1,400,346	1,187,823	(212,523)	118%	855,798	NA

NOTE: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements - Nonmajor governmental funds
- Statistical Data

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Street Fund	Accounts for revenues and expenditures of the street department.
Library Fund	The Library Fund accounts for the operating activities of the City's library. This is reported with governmental activities in the government-wide statements.
Cemetery Fund	Accounts for the operation and maintenance of the City-owned cemetery. Financing is provided primarily through fees and interest earned.
Library Corporation Fund	Accounts for the activities of the corporation which receives grants and donations for the library.

CITY OF MONTGOMERY, MISSOURI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	
ASSETS					
Cash and cash equivalents	$ (112,339)	$ 126,776	$ 41,414	$ 450	$ 56,301
Certificates of deposit	-	-	57,693	-	57,693
Taxes receivable	37,853	8,232	-	-	46,085
Intergovernmental receivable-grants	-	6,727	-	-	6,727
Prepaid insurance	-	501	40	-	541
Cash-restricted	-	-	-	17,694	17,694
Total Assets	$ (74,486)	$ 142,236	$ 99,147	$ 18,144	$ 185,041
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ 2,917	$ 3,659	$ -	$ -	$ 6,576
Accrued expenses	-	554.00	-	-	554
Compensated absences	-	1,595.00	-	-	1,595
Total Liabilities	2,917	5,808	-	-	8,725
FUND BALANCES:					
Nonspendable-prepaid expenses	-	501	40	-	541
Assigned to library	-	135,927	-	-	135,927
Assigned to cemetery	-	-	99,107	-	99,107
Assigned to library corporation	-	-	-	18,144	18,144
Unassigned (deficit)	(77,403)	-	-	-	(77,403)
Total Fund Balances	(77,403)	136,428	99,147	18,144	176,316
Total Liabilities and Fund Balances	$ (74,486)	$ 142,236	$ 99,147	$ 18,144	$ 185,041

CITY OF MONTGOMERY, MISSOURI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	
REVENUES					
Property taxes	$ -	150,255	$ -	$ -	$ 150,255
Sales tax	140,099	-	-	-	140,099
Railroad, utility and intangible taxes	-	12,138	-	-	12,138
Intergovernmental	-	11,776	-	-	11,776
Charges for services	-	11,239	-	-	11,239
Licenses, permits and fees	-	-	1,020	-	1,020
Interest	320	51	732	15	1,118
Donations	-	5,898	300	-	6,198
Miscellaneous	-	-	-	21,140	21,140
Total Revenues	140,419	191,357	2,052	21,155	354,983
EXPENDITURES					
Current:					
Public works	44,326	174,237	224	20	218,807
Debt service:					
Principal	-	-	-	6,161	6,161
Interest	-	-	-	11,455	11,455
Capital outlay	52,065	-	-	-	52,065
Total Expenditures	96,391	174,237	224	17,636	288,488
Excess (Deficit) Revenues Over Expenditures	44,028	17,120	1,828	3,519	66,495
OTHER FINANCING SOURCES (USES)					
Sale of property	-	-	1,950	-	1,950
Transfers out	(46,128)	(4,000)	(1,000)	-	(51,128)
Total Other Financing Sources (Uses)	(46,128)	(4,000)	950	-	(49,178)
Net Change in Fund Balances	(2,100)	13,120	2,778	3,519	17,317
Fund Balances - beginning of year	(75,303)	123,308	96,369	14,625	158,999
Fund Balances - end of year	$ (77,403)	$ 136,428	$ 99,147	$ 18,144	$ 176,316

STATISTICAL DATA

(UNAUDITIED)

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2013

Insurance Agency	Date of Policies			Amount of Coverage
Scott Agency	10/1/12 -10/1/13	Scheduled Equipment	$	727,665
		Business Real Estate and Personal Property		14,554,302
		Vehicle Liability Each Occurrence		2,000,000
		Uninsured & Underinsured Motorist		50,000
		General Aggregate Limit (Other Than Products-Completed Operations)		4,000,000
		Products-Completed Operations Aggregate Limit		4,000,000
		Personal & Advertising Injury Limit		2,000,000
		Each Occurrence Limit		2,000,000
		Damage to Premises Rented to You Limit - (Any One Premise)		100,000
		Medical Expense Limit - (Any One Person)		5,000
		Employment Practices Occurrence Limit		2,000,000
		Employment Practices Aggregate Limit		4,000,000
		Employment Practices Deductible: $1,000 Per Claim		
		Public Officials Liability Occurrence Limit		2,000,000
		Public Officials Liability Aggregate Limit		4,000,000
		Law Enforcement Liability Occurrence Limit		2,000,000
		Law Enforcement Liability Aggregate Limit		4,000,000
Missouri Employers Mutal Insurance	7/1/12 - 7/1/13	**WORKERS COMPENSATION:**		
		Bodily Injury - Accident	$	500,000
		Bodily Injury - Disease		500,000
		Bodily Injury - Disease Each Occurrence		500,000
		FIDELITY BONDS:		
CNA Surety	3/21/13 - 3/21/14	Linda Block, Deputy Clerk/Treasurer	$	50,000
CNA Surety	8/30/12 - 8/30/13	Brandy Atterbury, Municipal Court Clerk		25,000
Allied Insurance	7/26/12 - 7/26/13	Jill Dunlap, City Collector		25,000
Allied Insurance	1/27/13 - 1/27/14	Steven Deves, City Administrator/Clerk		50,000
Scott Agency	12/12/12-12/12/13	Library dishonesty bond		25,000

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

Insurance Agency	Date of Policies		Amount of Coverage
Scott Agency	10/1/12 - 10/1/13	**ADDITIONAL BENEFITS COVERAGE:**	
		Premises Boundary Increase	1000 Feet
		Foundations, structures, below ground, Bulkheads, pilings, piers, wharves, docks, Retaining walls, underground pipes, flues, drains	Lesser of 15% of property value or $300,000
		Debris Removal	$ 50,000
		Fire Department Service Charge	$ 10,000
		Pollutant Clean Up and Removal	$ 50,000
		Arson, Theft, Vandalism Reward	$ 10,000
		Backup of Sewer, Drains, and Sumps	$50,000/option to increase
		Business Income	$30,000/option to increase
		Building Ordinance or Law	$250,000/option to increase
		Civil Authority	3 weeks
		Employee Dishonesty	$25,000/option to increase
		Errors and Omissions	$ 50,000
		Expediting Expense	$ 25,000
		Extra Expense	$100,000/option to increase
		Fire Protection Equipment Refill	$ 25,000
		Forgery and Alteration	$10,000/option to increase
		Loss Data Preparations Costs	$ 50,000
		Lost Key Consequential Loss	$ 5,000
		Utility Services	$ 10,000
		Newly Acquired or Constructed Property Buildings and Business Personal Property	$ 2,000,000
		Personal Effects and Property of Others	$ 25,000
		Valuable Papers and Records (Other Than Electronic Data)	$50,000/option to increase
		Property Off-Premises Including Transit	$ 50,000
		Outdoor Property	$50,000/option to increase
		Accounts Receivable	$50,000/option to increase
		Commandeered Property	$ 500,000
		Computers, Software and Telephone Systems	$100,000/option to increase
		Fine Arts at Market Value	$ 50,000
		Money and Securities	$10,000/option to increase
		Outdoor Signs	$25,000/option to increase

CITY OF MONTGOMERY, MISSOURI
CUSTOMERS IN SERVICE - WATER AND WASTE WATER
JUNE 30, 2013 AND 2012

WATER UTILITY

Number of customers served	-	June 30, 2013	1,356
Number of customers served	-	June 30, 2012	1,354
INCREASE IN CUSTOMERS DURING YEAR			2

WASTE WATER UTILITY

Number of customers served	-	June 30, 2013	1,340
Number of customers served	-	June 30, 2012	1,340
INCREASE IN CUSTOMERS DURING YEAR			-

COMPLIANCE AND INTERNAL CONTROL

GK&C
GERDING, KORTE & CHITWOOD

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Certified Public Accountants

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INDEPENDENT AUDITORS' 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*

Honorable Mayor and Members
of the Board of Aldermen
City of Montgomery, Missouri

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Montgomery, Missouri (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 24, 2014.

PARTNERS

Robert A. Gerding
Fred W. Korte, Jr.
Joseph E. Chitwood
James R. McGinnis
Travis W. Hundley
Jeffrey A. Chitwood

Internal Control Over Financial Reporting

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

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2013-1 and 2013-2).

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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 24, 2014

Gerding, Korte & Chitwood, P.C.
Certified Public Accountants
Boonville, Missouri

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

2013-1 Documentation of Internal Controls

Criteria: Current auditing standards require adequate documentation of components of internal controls. This is considered to be at least a significant deficiency and, possibly, a material weakness.

Condition: The City does not have written documentation of internal controls.

Context: During the audit, we requested to review the internal control documentation manual and were told no such manual exists.

Effect: City personnel do not have a manual to which to refer to determine how duties are to be performed to ensure that adequate internal controls are followed.

Cause: The City has developed internal controls over the years, however, they have not been developed in written form, most likely due to the time which would be involved to accurately record such controls.

Recommendation: The City should establish written internal control procedures which are made available to all personnel. The written controls should be periodically reviewed to ensure they are being followed and are adequate.

Views of Responsible Officials & Planned Corrective Actions:
We are currently planning to develop a written manual for our employees to follow. This is a time-consuming task that has been hard to implement due to our small number of personnel, but one that needs to be done to ensure adequate internal controls are in place and followed by City personnel.

2013-2	Accounting Personnel
Criteria:	Proper segregation of duties reduces the risk of errors and fraud and is an important internal control.
Condition:	The City does not have enough accounting personnel to properly segregate duties.
Context:	During our audit we reviewed City policies and procedures and determined adequate segregation of duties did not exist.
Effect:	A small number of employees perform several accounting duties.
Cause:	The City does not have the financial resources to hire enough personnel to segregate duties.
Recommendation:	The City should segregate duties wherever possible and implement other controls to compensate for the lack of segregation of duties.

Views of Responsible Officials & Planned Corrective Actions:

The cost of hiring additional personnel is prohibitive and outweighs the potential benefits. We currently require two signatures on all checks and important documents, we have personnel coding the bills which are different than the personnel making the payments, we have board approval of all bills paid, and many other ways we attempt to mitigate potential risk due to our limited accounting personnel.