REPORT OF

CITY OF MONTGOMERY, MISSOURI

YEAR ENDED JUNE 30, 2010

CITY OF MONTGOMERY, MISSOURI

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CITY OF MONTGOMERY, MISSOURI

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INDEPENDENT AUDITORS' REPORT

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

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, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

PARTNERS

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

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MEMBERS OF AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress (on pages 3 - 10 and page 54) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual 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 and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

March 14, 2011

Certified Public Accountants

CITY OF MONTGOMERY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2010
(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, 2010. 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 $7,831,624 (net assets). Of this amount, $1,638,121 (unrestricted net assets) 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 assets decreased by $35,157 of which $24,700 was capital grants and contributions from developers.

- As of the close of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of $477,768. Of this amount $446,099 is unreserved and available for use within the City's designation and policies.

- At the end of the current fiscal year, unreserved fund balance for the general fund was $303,492 or 17.9% of the total general fund expenditures.

- The City's revenue bonds payable decreased $237,786 due to scheduled payments.

- The City's capital lease debt decreased $64,519 due to scheduled payments of $64,519.

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

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets 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 Electric, Water, Sewer, Airport and Water and Light Special 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 eight 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 and wastewater, sewer, airport, 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 25-53.

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 54 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 55-56 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets 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 $7,831,624 as of June 30, 2010.

The largest portion of the City's net assets (52.9%) 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 ASSETS

The following table provides a summary of the City's net assets at June 30, 2010, with comparative figures for June 30, 2009:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current assets	$ 1,567,083	$ 937,143	$ 1,307,971	$ 1,393,717	$ 2,875,054	$ 2,330,860
Restricted assets	13,890	10,769	2,223,863	2,337,320	2,237,753	2,348,089
Capital assets	2,032,815	1,891,789	8,338,992	8,489,918	10,371,807	10,381,707
Total Assets	3,613,788	2,839,701	11,870,826	12,220,955	15,484,614	15,060,656
Current liabilities	1,083,479	328,762	841,616	627,405	1,925,095	956,167
Long-term liabilities	480,628	505,031	5,247,267	5,732,677	5,727,895	6,237,708
Total Liabilities	1,564,107	833,793	6,088,883	6,360,082	7,652,990	7,193,875
Net assets						
Invested in capital assets, net of related debt	1,530,769	1,681,121	2,615,655	2,347,310	4,146,424	4,028,431
Restricted	31,669	28,133	2,015,410	2,132,467	2,047,079	2,160,600
Unrestricted	487,243	296,654	1,150,878	1,381,096	1,638,121	1,677,750
Total Net Assets	$ 2,049,681	$ 2,005,908	$ 5,781,943	$ 5,860,873	$ 7,831,624	$ 7,866,781

As of June 30, 2010, the City is able to report positive balances in all three categories of net assets for the government as a whole.

Analysis of the City's Operations - Overall the City had an decrease in net assets of $35,157.

Governmental Activities: Governmental activities increased the net assets by $43,773.

Business-type Activities: Net Assets from business-type activities decreased by $78,930 or 1.3% from $5,860,873 to $5,781,943.

CHANGES IN NET ASSETS

The following table provides a summary of the City's operations for the year ended June 30, 2010, with comparative figures for the year ended June 30, 2009.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Fees, fines and charges for services	$ 450,631	$ 480,064	$ 1,837,374	$ 1,775,169	$ 2,288,005	$ 2,255,233
Operating grants and contributions	31,535	14,517	-	-	31,535	14,517
Capital grants and contributions	24,700	182,329	-	9,492	24,700	191,821
General Revenues:						
Property taxes	312,432	291,451	-	-	312,432	291,451
Sales and use taxes	420,277	425,750	-	-	420,277	425,750
Motor vehicle and fuel taxes	91,570	91,059	-	-	91,570	91,059
Other taxes	294,284	228,621	-	-	294,284	228,621
Investment earnings	16,546	17,746	96,085	114,472	112,631	132,218
Transfers	164,810	162,920	(164,810)	(162,920)	-	-
Miscellaneous	23,460	28,613	-	-	23,460	28,613
Total Revenues	1,830,245	1,923,070	1,768,649	1,736,213	3,598,894	3,659,283
Expenses:						
General government	366,919	328,125	-	-	366,919	328,125
Public safety	403,998	418,856	-	-	403,998	418,856
Public works	534,248	548,381	-	-	534,248	548,381
Cultural, parks and recreation	41,517	60,536	-	-	41,517	60,536
Solid waste	317,206	325,072	-	-	317,206	325,072
Water/sewer	-	-	968,589	913,874	968,589	913,874
Gas	-	-	889,393	780,954	889,393	780,954
Interest on long-term debt	20,887	12,375	-	-	20,887	12,375
Economic development	104,340	135,315	-	-	104,340	135,315
Total Expenses	1,789,115	1,828,660	1,857,982	1,694,828	3,647,097	3,523,488
Total other items	2,643	6,078	10,403	-	13,046	6,078
Change in net assets	43,773	100,488	(78,930)	41,385	(35,157)	141,873
Net Assets - Beginning of Year	2,005,908	1,905,420	5,860,873	5,819,488	7,866,781	7,724,908
Net Assets - End of Year	$ 2,049,681	$ 2,005,908	$ 5,781,943	$ 5,860,873	$ 7,831,624	$ 7,866,781

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of $477,768. Of this amount $446,099 constitutes unreserved fund balance.

In the general fund, the City originally budgeted for no change in the fund balance. Due to actual revenues being less than budgeted the actual fund balance decreased for fiscal year 2010 by $137,252. 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 assets of the respective proprietary funds are Gas - $471,839, Water/Sewer - $679,039. Funds which had a net assets increase/(decrease) in 2010 were as follows: Gas – $(78,017) and Water/Sewer - $(913).

Capital Assets

The City of Montgomery's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to $10,371,807 (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, 2010, with comparative figures for June 30, 2009:

Capital Assets At Year-End
Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment:						
Land, land rights and land improvements/construction in progress	$ 235,164	$ 229,566	$ 42,960	$ 42,960	$ 278,124	$ 272,526
Buildings and improvements	685,092	709,088	35,786	37,678	720,878	746,766
Infrastructure	807,005	614,627	-	-	807,005	614,627
Distribution & collection systems	-	-	8,123,320	8,331,421	8,123,320	8,331,421
Machinery & equipment	305,554	338,508	136,926	77,859	442,480	416,367
Net Capital Assets	$ 2,032,815	$ 1,891,789	$ 8,338,992	$ 8,489,918	$ 10,371,807	$ 10,381,707

Additional information on the City of Montgomery's capital assets can be found in Note III-D on pages 38 and 39 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 and contracts payable of $7,027,273. Of this amount, $4,473,202 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, 2010, with comparative figures for June 30, 2009:

Capital Assets At Year-End
Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Capital lease obligations	$ -	$ 1,542	$ 1,250,135	$ 1,313,112	$ 1,250,135	$ 1,314,654
Notes payable	289,302	294,759	-	-	289,302	294,759
Bonds payable	-	-	2,658,246	2,896,032	2,658,246	2,896,032
DNR loan payable	-	-	1,814,956	1,933,463	1,814,956	1,933,463
Accrued compensated absences	25,408	33,404	3,400	6,580	28,808	39,984
Net Capital Assets	$ 314,710	$ 329,705	$ 5,726,737	$ 6,564,221	$ 6,041,447	$ 6,478,892

During the fiscal year, the City's total debt increased by $344,712 or 5.2%. The increase was due to additional debt proceeds.

Additional information on the City of Montgomery's long term-debt can be found in Note III-G on pages 44-47 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 ASSETS
JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 403,856	$ 639,044	$ 1,042,900
Investments	49,577	543,349	592,926
Taxes receivable	140,643	-	140,643
Accounts receivable, net	11,809	49,225	61,034
Inventories	-	76,353	76,353
Investment - property	961,198	-	961,198
Total Current Assets	1,567,083	1,307,971	2,875,054
Non Current Assets:			
Restricted cash	13,890	134,857	148,747
Restricted investments	-	2,089,006	2,089,006
Capital assets:			
Land	94,500	42,960	137,460
Construction in progress	140,664	-	140,664
Other capital assets, net of accumulated depreciation	1,797,651	8,296,032	10,093,683
Total Noncurrent Assets	2,046,705	10,562,855	12,609,560
Total Assets	3,613,788	11,870,826	15,484,614
LIABILITIES			
Current Liabilities:			
Notes payable	991,508	155,655	1,147,163
Accounts payable	85,141	43,653	128,794
Accrued liabilities	-	-	-
Payable From Segregated Funds:			
Interest payable	-	88,559	88,559
Bonded debt due within one year	-	290,000	290,000
Refundable deposits	6,830	74,279	81,109
Leases payable due within one year	-	66,826	66,826
DNR loan fund due within one year	-	122,644	122,644
Total Current Liabilities	1,083,479	841,616	1,925,095
Noncurrent Liabilities:			
Obligation for solid waste landfill	171,600	-	171,600
Leases payable	-	1,183,309	1,183,309
Notes payable	283,620	-	283,620
Bonds payable	-	2,368,246	2,368,246
DNR loan fund	-	1,692,312	1,692,312
Compensated absences	25,408	3,400	28,808
Total Noncurrent Liabilities	480,628	5,247,267	5,727,895
Total Liabilities	1,564,107	6,088,883	7,652,990
NET ASSETS			
Invested in capital assets, net of related debt	1,530,769	2,615,655	4,146,424
Restricted but expendable for (except as noted):			
Debt service	-	2,015,410	2,015,410
Other purposes	31,669	-	31,669
Unrestricted	487,243	1,150,878	1,638,121
Total Net Assets	$ 2,049,681	$ 5,781,943	$ 7,831,624

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental Actvities:							
General government	$ 366,919	$ 37,738	$ 24,600	$ 5,700	$ (298,881)	$ -	$ (298,881)
Public works	534,248	11,805	6,935	-	(515,508)	-	(515,508)
Public safety	403,998	47,041	-	19,000	(337,957)	-	(337,957)
Solid waste	317,206	354,047	-	-	36,841	-	36,841
Parks	41,517	-	-	-	(41,517)	-	(41,517)
Community planning/economic development	104,340	-	-	-	(104,340)	-	(104,340)
Interest on long -term debt	20,887	-	-	-	(20,887)	-	(20,887)
Total Governmental Activities	1,789,115	450,631	31,535	24,700	(1,282,249)	-	(1,282,249)
Business-Type Activities:							
Water and waste water	968,589	944,202	-	-	-	(24,387)	(24,387)
Gas	889,393	893,172	-	-	-	3,779	3,779
Total Business-Type Activities	1,857,982	1,837,374	-	-	-	(20,608)	(20,608)
Total Primary Government	$ 3,647,097	$ 2,288,005	$ 31,535	$ 24,700	$ (1,282,249)	$ (20,608)	$ (1,302,857)

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont'd)
YEAR ENDED JUNE 30, 2010

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
General Revenues:			
Taxes:			
Property taxes, levied for general purpose	$ 171,134	$ -	$ 171,134
Property taxes, levied for library	141,298	-	141,298
Sales tax	286,129	-	286,129
Sales tax, restricted for street	134,148	-	134,148
Vehicle sales taxes	91,570	-	91,570
Other taxes	294,284	-	294,284
Interest income	16,546	96,085	112,631
Miscellaneous	23,460	-	23,460
Transfers	164,810	(164,810)	-
Total general revenues and transfers	1,323,379	(68,725)	1,254,654
Other Items:			
Asset sales	2,643	10,403	13,046
Change in net assets	43,773	(78,930)	(35,157)
Net assets - beginning	2,005,908	5,860,873	7,866,781
Net assets - ending	$ 2,049,681	$ 5,781,943	$ 7,831,624

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	$ 322,447	$ 81,409	$ 403,856
Investments	-	49,577	49,577
Taxes receivable	99,140	41,503	140,643
Accounts receivable, net	11,809	-	11,809
Investment property	961,198	-	961,198
Restricted assets:			
Cash and cash equivalents	6,830	7,060	13,890
Total Assets	$ 1,401,424	$ 179,549	$ 1,580,973
LIABILITIES			
Notes payable	$ 985,826	$ -	$ 985,826
Accounts payable	80,779	4,362	85,141
Customer deposits	6,830	-	6,830
Compensated absences	24,497	911	25,408
Total Liabilities	1,097,932	5,273	1,103,205
FUND BALANCES			
Reserved for special purpose	-	31,669	31,669
Unreserved	303,492	-	303,492
Unreserved, reported in nonmajor special revenue funds	-	142,607	142,607
Total Fund Balances	303,492	174,276	477,768
Total Liabilities and Fund Balances	$ 1,401,424	$ 179,549	$ 1,580,973

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total fund balance - total governmental funds	$	477,768
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities of $3,394,427 net of accumulated depreciation of $1,361,612, are not financial resources and, therefore, are not reported in the funds.		2,032,815
Long-term liabilities of $289,302 are not due and payable in the current period and are not reported in the funds.		(289,302)
Long-term obligation for the solid waste landfill of $171,600 is not due and payable in the current period and is not reported in the funds.		(171,600)
Net Assets of Governmental Activities	$	2,049,681

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	Other Governmental Funds	Total
REVENUES			
Property taxes	$ 171,134	$ 141,298	$ 312,432
Sales tax	286,129	134,148	420,277
Railroad, utility and intangible taxes	267,868	12,122	279,990
Cigarette tax	14,294	-	14,294
Motor fuel and vehicle taxes	91,570	-	91,570
Intergovernmental	48,839	3,330	52,169
Charges for services	365,147	9,945	375,092
Fines and forfeits	44,341	-	44,341
Licenses, permits and feees	29,968	1,230	31,198
Interest	14,196	2,350	16,546
Miscellaneous	1,557	25,970	27,527
Total Revenues	1,335,043	330,393	1,665,436
EXPENDITURES			
Current			
General government	357,205	-	357,205
Public works	229,201	231,011	460,212
Public safety	396,407	-	396,407
Solid waste	327,931	-	327,931
Parks	25,613	-	25,613
Community planning/economic development	74,652	-	74,652
Debt service	8,728	17,616	26,344
Capital outlay	279,025	1,884	280,909
Total Expenditures	1,698,762	250,511	1,949,273
Excess (Deficit) of Revenues over Expenditures and Other Sources (Uses)	(363,719)	79,882	(283,837)
OTHER FINANCING SOURCES AND USES			
Sale of property	2,700	1,350	4,050
Transfers in	223,767	544	224,311
Transfers out	-	(59,501)	(59,501)
Net Other Financing Sources and Uses	226,467	(57,607)	168,860
Net Change in Fund Balances	(137,252)	22,275	(114,977)
Fund Balance, beginning of year	440,744	152,001	592,745
Fund Balance, end of year	$ 303,492	$ 174,276	$ 477,768

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, 2010

Net change in fund balances - total governmental funds		$ (114,977)
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	280,909	
Depreciation expense	(138,476)	
Excess of capital outlay over depreciation expense		142,433
Proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, in the Statement of Activities, a gain or loss on sale of capital assets is recorded. In the current year, these amounts are:		
Proceeds from sale of capital assets		(4,050)
Gain on sale of capital assets		2,643
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. In the current year, these amounts consist of:		
Capital lease payments		1,542
The repayment of the principal of long-term debt consumes the current financial resourses of governmental funds and is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Library corporation loan principal payments		5,457
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 Assets of Governmental Activities		$ 43,773

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
REVENUES				
Property taxes	$ 168,000	$ 171,134	$ 171,134	$ -
Sales tax	305,000	286,129	286,129	-
Railroad, utility and intangible taxes	212,400	267,868	267,868	-
Cigarette tax	15,000	14,294	14,294	-
Motor fuel and vehicle taxes	95,000	91,570	91,570	-
Intergovernmental	64,000	48,839	48,839	-
Charges for services	393,000	365,147	365,147	-
Fines and forfeits	42,000	44,341	44,341	-
Licenses, permits and fees	33,300	29,968	29,968	-
Interest	350	14,196	14,196	-
Miscellaneous	12,000	1,557	1,557	-
Total Revenues	1,340,050	1,335,043	1,335,043	-
EXPENDITURES				
Current				
General government	367,540	357,205	357,205	-
Public works	267,780	229,201	229,201	-
Public safety	414,420	396,407	396,407	-
Solid waste	338,440	327,931	327,931	-
Parks	39,500	25,613	25,613	-
Community planning/ economic development	151,150	74,652	74,652	-
Debt service	20,500	8,728	8,728	-
Capital Outlay	-	279,025	279,025	-
Total Expenditures	1,599,330	1,698,762	1,698,762	-
Excess (Deficit) of Revenues over Expenditures	(259,280)	(363,719)	(363,719)	-
OTHER FINANCING SOURCES (USES)				
Sale of property	38,000	2,700	2,700	-
Transfers in	221,280	223,767	223,767	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	259,280	226,467	226,467	-
Net Change in Fund Balances	-	(137,252)	(137,252)	$ -
Fund Balance - beginning of year	440,744	440,744	440,744	
Fund Balance - end of year	$ 440,744	$ 303,492	$ 303,492	

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Water & Waste Water Fund	Gas Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 370,777	$ 268,267	$ 639,044
Investments	305,751	237,598	543,349
Accounts receivable, net	38,504	10,721	49,225
Inventories	57,296	19,057	76,353
Total Current Assets	772,328	535,643	1,307,971
Noncurrent Assets:			
Restricted cash	100,188	34,669	134,857
Restricted investments	2,089,006	-	2,089,006
Capital Assets:			
Land	34,149	8,811	42,960
Buildings and improvements	31,623	50,484	82,107
Machinery and equipment	432,481	170,312	602,793
Distribution and collection systems	11,040,507	664,850	11,705,357
Less: Accumulated depreciation	(3,508,055)	(586,170)	(4,094,225)
Total Noncurrent Assets	10,219,899	342,956	10,562,855
Total Assets	$ 10,992,227	$ 878,599	$ 11,870,826
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 24,305	$ 19,348	$ 43,653
Current Liabilities Payable From Restricted Cash:			
Customer deposits	39,610	34,669	74,279
Interest payable	88,559	-	88,559
Revenue bonds due within one year	290,000	-	290,000
Lease payable due within one year	60,149	6,677	66,826
Notes payable	112,601	43,054	155,655
DNR loan fund payable within one year	122,644	-	122,644
Total Current Liabilities	737,868	103,748	841,616
Non-Current Liaibilities:			
Leases payable	1,180,529	2,780	1,183,309
Bonds payable	2,368,246	-	2,368,246
DNR loan fund	1,692,312	-	1,692,312
Compensated absences	1,998	1,402	3,400
Total Non-Current Liabilities	5,243,085	4,182	5,247,267
Total Liabilities	5,980,953	107,930	6,088,883
NET ASSETS			
Investment in capital assets, net of related debt	2,316,825	298,830	2,615,655
Restricted for debt service	2,015,410	-	2,015,410
Unrestricted	679,039	471,839	1,150,878
Total Net Assets	$ 5,011,274	$ 770,669	$ 5,781,943

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF OPERATING REVENUES, OPERATING EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Water & Waste Water Fund	Gas Fund	Total
Operating Revenues:			
Charges for services	$ 924,757	$ 878,883	$ 1,803,640
Other	19,445	14,289	33,734
Total operating revenues	944,202	893,172	1,837,374
Operating Expenses:			
Personnel services	153,839	116,958	270,797
Contractual services	30,755	685,941	716,696
Repairs and maintenance	127,192	10,048	137,240
Insurance	15,398	-	15,398
Sales tax	9,686	20,496	30,182
Utilities	75,583	14,358	89,941
Other supplies and expenses	70,431	19,174	89,605
Amortization	1,795	-	1,795
Depreciation	276,290	20,904	297,194
Total operating expenses	760,969	887,879	1,648,848
Operating Income	183,233	5,293	188,526
Nonoperating Revenue (Expenses):			
Interest revenue	94,344	1,741	96,085
Interest expense	(207,620)	(1,514)	(209,134)
Gain on sale of assets	5,350	5,053	10,403
Total nonoperating revenue (expense)	(107,926)	5,280	(102,646)
Net Income Before Transfers	75,307	10,573	85,880
Transfers			
Transfer out	(76,220)	(88,590)	(164,810)
Total Transfers	(76,220)	(88,590)	(164,810)
Change in Net Assets	(913)	(78,017)	(78,930)
Net assets - beginning of year	5,012,187	848,686	5,860,873
Net assets - end of year	$ 5,011,274	$ 770,669	$ 5,781,943

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Water & Waste Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 935,011	$ 889,107	$ 1,824,118
Payments to suppliers and contractors	(319,894)	(744,194)	(1,064,088)
Payments to and on behalf of employees	(155,631)	(118,346)	(273,977)
Receipts(payments) of customer deposits (net)	725	(627)	98
Net cash provided (used) by operating activities	460,211	25,940	486,151
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(76,220)	(88,590)	(164,810)
Net cash provided (used) by noncapital financing activities	(76,220)	(88,590)	(164,810)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt proceeds	136,000	52,000	188,000
Purchases of capital assets	(106,505)	(40,060)	(146,565)
Proceeds from sales of capital assets	5,350	5,350	10,700
Principal paid on capital debt	(437,113)	(16,298)	(453,411)
Interest paid on capital debt	(215,033)	(1,514)	(216,547)
Net cash provided (used) by capital and related financing activities	(617,301)	(522)	(617,823)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment assets	500,774	-	500,774
Purchase of investment assets	(510,817)	(237,598)	(748,415)
Interest	94,344	1,741	96,085
Net cash provided (used) by investing activities	84,301	(235,857)	(151,556)
Net increase (decrease) in cash and cash equivalents	(149,009)	(299,029)	(448,038)
Balances - beginning of year	619,974	601,965	1,221,939
Balances - end of year	$ 470,965	$ 302,936	$ 773,901

See notes to financial statement

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CASH FLOWS (CONT'D)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Water & Waste Water Fund	Gas Fund	Total
DISPLAYED AS:			
Cash and cash equivalents	$ 370,777	$ 268,267	$ 639,044
Restricted cash	100,188	34,669	134,857
	$ 470,965	$ 302,936	$ 773,901
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ 183,233	$ 5,293	$ 188,526
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	276,290	20,904	297,194
Amortization expense	1,795	-	1,795
Change in assets and liabilities:			
Receivables, net	(9,191)	(4,065)	(13,256)
Inventories	10,090	1,972	12,062
Accounts and other payables	(939)	3,851	2,912
Compensated absences payable	(1,792)	(1,388)	(3,180)
Customer deposits	725	(627)	98
Total adjustments	276,978	20,647	297,625
Net cash provided by operating activities	$ 460,211	$ 25,940	$ 486,151

See notes to financial statement

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF NET ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2010

	Employee Deferred Compensation Fund
ASSETS	
Investment	$ 34,021
Total Assets	$ 34,021
LIABILITIES	
Deferred compensation benefits	$ 34,021
Total Liabilities	$ 34,021

See notes to financial statements

CITY OF MONTGOMERY, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010

	Employee Deferred Compensation Fund
ADDITIONS	
Contributions	
Employer/employee	$ 2,600
Total contributions	2,600
Investment earnings	
Investment income	824
Net increase (decrease) in fair value of investments	1,014
Net investment earnings	1,838
Total Additions	4,438
DEDUCTIONS	
Total Deductions	-
Change in net assets	4,438
Net assets, beginning of year	29,583
Net assets, end of year	$ 34,021

See notes to financial statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Montgomery, Missouri, have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City has not elected, under Paragraph 7 of GASB Statement No. 20, for its proprietary funds to follow Financial Accounting Standards Board (FASB) statements and interpretations. The more significant of the City's accounting policies are described below.

A. The Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board, as outlined in the Statement of Financial Accounting Standards No. 14, "The Financial Reporting Entity." SFAS No. 14 defines the reporting entity as the primary government and those component units for which primary government is financial accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either, (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

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.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

Fund financial statements provide reports on the financial condition and results of operation for three fund categories - governmental, proprietary, and fiduciary. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating. The City has not elected to apply, under Paragraph 7 of GASB Statement No. 20, for its proprietary funds to follow Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Fiduciary funds financial statements include the statement of assets and liabilities. The statement of assets and liabilities includes information about the assets held in an agency capacity.

C. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Library Fund
The Library Fund accounts for the operating activities of the City's liabrary. 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.

Gouldman Cemetery Fund
The Gouldman Cemetery Fund accounts for assets that are held for the Cemetery Fund. Only interest earned on principal can be used by the cemetery. This is a permanent fund reported with governmental activities in the government-wide statements.

Library Corporation (Component Unit)
The Library Corporation accounts for the activities of the corporation which receives grants and donations for the library.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

D. Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Fund Financial Statements
The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or received) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements
Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are reported as expenditures in the year due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City has not elected, under Paragraph 7 of GASB Statement No. 20, for its governmental and business-type activities and enterprise funds to follow FASB statements and interpretations.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

The City's investments include money market accounts, certificates of deposits, and real estate. Accordingly, the City's money market accounts and certificates of deposits at June 30, 2010, carry no market risk; however, the real estate is subject to market fluctuations.

Interest earned on unrestricted investments accounts is allocated to various funds based upon their pro-rate share of the total investment balance.

Statutes, the City Charter, and legal opinions authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; states, agencies, and political subdivisions thereof; mutual funds containing authorized securities; and certificates of deposit of banks and savings and loans in Missouri.

F. Cash and Cash Equivalents

The City considers cash and cash equivalents in the proprietary fund to be cash and all highly liquid investments with an original maturity of 90 days or less.

G. 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. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered 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. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property Tax Calendar

Property taxes are levied on August 15 and are due no later than December 31. The levy rate is established by the Board of Aldermen each year. Any taxes due and not paid by December 31 are considered delinquent.

I. Inventories

Inventories of materials and supplies in the business-type activities are stated at cost using the specific identification method.

J. Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated fixed assets are recorded at their estimated fair value at the date of donation. Prior to July 1, 2003, general infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003, are recorded at cost.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of $500 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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Accounts Payable

Accounts payable of the governmental activities and business-type activities consist of amounts due to vendors.

L. Long-Term Debt and Bond Discounts/Premiums

In the government-wide and proprietary fund financial statements, outstanding debt is reported as liabilities. Bond issuance costs and bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

M. Net Assets and Fund Balance

Government-Wide Statements
Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

2. Restricted net assets - Consists of net assets 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.

3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements
Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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.

O. Operating Revenue and Expense

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

P. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

Interfund activity, if any, within or among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables.

2. Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.

3. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.

2. Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers.

Q. 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.

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 assets, revenues, and expenditures/expenses.

A. Cash and Investments

The City pools the cash and investments of all funds to maximize investment return. Individual fund balances are maintained by the City's accounting system. The City complies with various restrictions on deposits and investments which are imposed by state statutes as follows:

Deposits - All deposits with financial institutions must be collateralized in an amount at least equal to uninsured deposits.

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

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.

The deposits and investments held at June 30, 2010 are shown below:

	Maturities	Carrying Value
Deposits:		
Demand deposits		$ 1,120,149
		1,120,149
Investments:		
Time deposit	7/13/2010	407,290
Time deposit	7/30/2010	2,689
Time deposit	7/31/2010	3,095
Time deposit	8/31/2010	6,372
Time deposit	9/9/2010	32,592
Time deposits	10/31/2010	22,142
Time deposit	3/2/2011	6,294
Time deposit	6/1/2011	70,000
Time deposit	6/11/2011	8,984
Time deposits	11/14/2011	42,629
Time deposits	12/8/2011	96,950
Time deposits	3/24/2013	74,000
U.S. Treasury Obligations		1,980,393
		2,753,430
Total deposits and investments		$ 3,873,579

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

Reconciliation of Statement of Net Assets:	
Current:	
Cash and cash equivalents	1,042,900
Investments	592,926
Total Current	1,635,826
Noncurrent:	
Restricted cash	148,747
Restricted investments	2,089,006
Total Noncurrent	2,237,753
Total	$3,873,579

Custodial Credit Risk. Deposits in financial institutions, reported as components of cash and investments had a bank balance of $1,895,553 at June 30, 2010. Balances at all banks were fully insured or secured with collateral held by the City's agent in its name. All investments are registered in the name of the City.

Investment interest rate risk. The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at June 30, 2010, are provided in the previous schedule.

Investment credit risk. The City maintains cash deposits and investments which are authorized by City ordinances related to the long-term debt issuances. The Council has given the City Administrator and Finance Director the authority to invest idle funds of the City in low-risk investments such as United States government securities or collateralized certificates of deposit.

Concentration of investment credit risk. The City places no limit on the amount it may invest in any one issuer. At June 30, 2010, the City had no concentration of credit risk.

Restricted Assets

The restricted assets represent customer utility deposits and cash and investments reserved in accordance with the Combined Waterworks and Sewerage System revenue bond ordinances. The restricted assets can be used only for the following:

Investment in Property

The City has purchased property to be used for development within the City. The acquisition cost of the property at June 30, 2010, as recorded on the Government-Wide Statement of Net Assets was $961,198.

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

Customer Deposits - Refunds of utility deposits to customers discontinuing utility usage.	$	81,109
Bond Reserve Account - Payment of principal and interest only when and to the extent other funds are not available for that purpose.		1,918,758
Bond Replacement and Extension Account - Payments for replacements or extensions to the system.		37,930
Bond Principal and Interest - Payment of bond principal and interest		199,957
Total Restricted Assets	$	2,237,753

The bond ordinances state that deposits shall be held by banks in the State of Missouri which are members of the Federal Deposit Insurance Corporation. No investment shall be made for a period extending longer than to the date when the moneys invested may be needed for the purpose of the fund.

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, 2010, is as follows:

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

	Governmental Activities	Business-Type Activities	Total
Total accounts receivable	$ 27,951	$ 142,000	$ 169,951
Less: Allowance for uncollectible accounts	(16,142)	(92,775)	(108,917)
Net accounts receivable	$ 11,809	$ 49,225	$ 61,034

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, 2010 was as follows:

	Governmental Activities
Taxes receivable	$ 140,643
Allowance for uncollectable accounts	—
Net taxes receivable	$ 140,643

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

D. Capital Assets

Capital asset activity, for the fiscal year ended June 30, 2010, was as follows:

Governmental Activities:	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Capital assets not being depreciated:				
Land	$ 94,500	$ -	$ -	$ 94,500
Construction in progress	135,066	5,598	-	140,664
	229,566	5,598	-	235,164
Capital assets being depreciated:				
Buildings and improvements	930,184	-	-	930,184
Machinery, equipment and furniture	1,056,382	24,884	(34,036)	1,047,230
Infrastructure	931,422	250,427	-	1,181,849
	2,917,988	275,311	(34,036)	3,159,263
Total capital assets at historical costs	3,147,554	280,909	(34,036)	3,394,427
Less accumulated depreciation:				
Buildings and improvements	(221,096)	(23,996)	-	(245,092)
Machinery, equipment and furniture	(717,874)	(56,431)	32,629	(741,676)
Infrastructure	(316,795)	(58,049)	-	(374,844)
Total accumulated depreciation	(1,255,765)	(138,476)	32,629	(1,361,612)
Net capital assets being depreciated	1,662,223	136,835	(1,407)	1,797,651
Net capital assets	$ 1,891,789	$ 142,433	$ (1,407)	$ 2,032,815

Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 42,960	$ -	$ -	$ 42,960
Construction in progress	-	-	-	-
	42,960	-	-	42,960
Capital assets being depreciated:				
Buildings and improvements	82,107	-	-	82,107
Machinery, equipment and furniture	558,129	83,376	(38,712)	602,793
Distribution and collection systems	11,642,168	63,189	-	11,705,357
	12,282,404	146,565	(38,712)	12,390,257
Total capital assets at historical costs	12,325,364	146,565	(38,712)	12,433,217
Less accumulated depreciation:				
Buildings and improvements	(44,429)	(1,892)	-	(46,321)
Machinery, equipment and furniture	(480,270)	(24,012)	38,415	(465,867)
Distribution and collection systems	(3,310,747)	(271,290)	-	(3,582,037)
Total accumulated depreciation	(3,835,446)	(297,194)	38,415	(4,094,225)
Net capital assets being depreciated	8,446,958	(150,629)	(297)	8,296,032
Net capital assets	$ 8,489,918	$ (150,629)	$ (297)	$ 8,338,992

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

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

Governmental Activities:	
General	$ 9,714
Public works	74,839
Public safety	7,591
Parks	16,644
Community planning/economic development	29,688
Total depreciation expense for governmental activities	$ 138,476
Business-Type Activities:	
Water and waste water	$ 276,290
Gas	20,904
Total depreciation expense for business-type activities	$ 297,194

E. 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, 2010:

Type of Debt	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Governmental Activities:				
Notes payable	$ 203,669	$ 856,082	$ 73,925	$ 985,826
Total	$ 203,669	$ 856,082	$ 73,925	$ 985,826

In June 1993 the City entered into two short-term notes to finance the purchase of the City Hall building. The notes were fully collateralized by deposits at the two financing institutions equal to the outstanding note principal and bore interest rates of 3.0% and 3.1%.

One note became due July 1, 1993, and was renewed for six months at the same rate of interest. The two notes were renewed in December 1993. Principal payments amounting to $550 were made during the fiscal year. The remaining balance was outstanding at June 30, 1994. The notes were renewed on July 17, 1994, and July 18, 1994. Both notes were increased by $22,724 each at the time of renewal. The notes were renewed on December 31, 1994. One note matured on September 30, 1995, and the other note matured on June 30, 1996. Both notes were renewed on June 30, 1996, and on that same date from 1997 through 2006. One note was paid off during 2008-2009.

The other note was renewed on June 30, 2009, and was paid June 22, 2010.

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

On December 7, 2007, the City borrowed $45,000 for the City Hall building roof, with an interest rate of 6.5%. The note has been renewed at 4% and is now due December 7, 2011. The balance at June 30, 2010 was $20,510.

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 November 5, 2009, and will mature on January 5, 2011. The unpaid principal balance will bear interest at an annual rate equal to the prime rate announced by the bank. At June 30, 2010, the interest rate was 4%. The interest rate is adjusted each time the prime rate changes. There were no principal payments made during the fiscal year ended June 30, 2010. At June 30, 2010, the note had a principal balance of $129,000.

On December 7, 2007, the City's transportation fund borrowed $45,000 to finance the purchase of a dump truck. The loan was renewed on December 7, 2010 at 4.21% interest and is due December 7, 2011. The balance at June 30, 2010 was $16,708. Interest paid during the fiscal year was $934 and principal was $11,376.

On June 1, 2010, the City borrowed $412,500 for the purchase of developed real estate land. The loan is due June 1, 2011 and the interest rate is 2.09%. The balance at June 30, 2010 is $412,500.

On June 1, 2010, the City borrowed $70,000 at 3.35%, with a maturity of June 1, 2011. Certificate of deposit number 34324 is held as collateral. The balance at June 30, 2010 is $70,000.

On June 1, 2010, the City borrowed $161,581.67 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, 2010 is $161,581.67.

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, 2010, and the interest rate is 3.710%. 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, 2010 is $331,181.97 and interest paid during 2009-2010 was $11,650.

The debt balance at June 30, 2010 is reported in the following funds as shown:

General	$ 175,526	(governmental)
Water and Sewer	112,601	
Gas	43,054	
	155,655	(business-type)
Total	$ 331,181	

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

F. Capital Leases

The changes in capital lease obligations for the year ended June 30, 2010 are shown below:

	Balance 6/30/2009	Lease Proceeds	Principal Paid	Balance 6/30/2010	Interest Paid
Governmental Activities:					
Public works	$ 802	$ -	$ 802	$ -	$ 6
Parks	740	-	740	-	6
	$ 1,542	$ -	$ 1,542	$ -	$ 12
Business-Type Activities:					
Water & waste water	$ 26,303	$ -	$ 10,625	$ 15,678	$ 1,220
Gas	16,809	-	7,351	9,458	758
	$ 43,112	$ -	$ 17,976	$ 25,136	$ 1,978

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

	Governmental Activities	Business-Type Activities	Total
Leased property	$ 29,664	$ 127,462	$ 157,126
Leased property accumulated depreciation	(17,613)	(80,107)	(97,720)
Total	$ 12,051	$ 47,355	$ 59,406

The City has entered into several capital leases for the acquisition of an excavator and vehicles. The following is a schedule of the future minimum payments under these capital leases as of June 30, 2010.

	Year Ending June 30,	Governmental Activities	Business-Type Activities
	2011	$ -	$ 17,824
	2012	-	8,519
Total lease payments		-	26,343
Less: Amount representing interest		-	(1,208)
Total obligation under capital leases		-	25,135
Less: Current portion		-	(16,826)
Total long-term obligation under capital leases		$ -	$ 8,309

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.

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

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.

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.

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

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.

The Base Rental Payment and Option Price Schedule follow:

Year Ending June 30,	Principal	Interest
2011	$ 50,000	$ 60,660
2012	50,000	58,410
2013	50,000	56,160
2014	55,000	53,735
2015	55,000	51,068
2016-2020	335,000	211,067
2021-2025	425,000	119,615
2026-2027	205,000	15,810
Total	$ 1,225,000	$ 626,525

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, 2010:

Type of Debt	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
Capital Lease Obligations	$ 1,542	$ -	$ 1,542	$ -	$ -
Notes Payable	294,759	-	5,457	289,302	5,682
Accrued compensated absences	33,404	-	7,996	25,408	-
Total General Long-Term Debt	$ 329,705	$ -	$ 14,995	$ 314,710	$ 5,682
Business-Type Activities:					
Bonds Payable	$ 2,896,032	$ -	$ 237,786	$ 2,658,246	$ 290,000
Capital Lease Obligations	1,313,112	-	62,977	1,250,135	66,826
DNR Loan Payable	1,933,463	-	118,507	1,814,956	-
Accrued Compensated Absences	6,580	-	3,180	3,400	122,644
Total Enterprise Fund Debt	$ 6,149,187	$ -	$ 422,450	$ 5,726,737	$ 479,470

Business-Type Activities

The City issued $630,000 of Revenue Bonds on March 4, 2004. The Combined Waterworks and Sewerage System Revenue Refunding Bonds Series 2004 were used to redeem and retire the 1991, 1993, and 1995 Bond Issues. The following is a summary of bond transactions of the City for the year ended June 30, 2010, for this issue:

	Revenue Bonds Combined Waterworks and Sewerage System 2004 Bond Issue
Bonds payable at June 30, 2010	$ 130,000
Less: Current portion due June 1, 2011	(130,000)
Long-term debt at June 30, 2010	$ –

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

The Revenue Bonds are due in an annual installment of $130,000 due June 1, 2011. Bonds bear interest at 3.50%. Principal and interest payments required for the next year are as follows:

June 1	Annual Rate of Interest	Principal Amount	Interest
2011	3.50%	$ 130,000	$ 4,550
		$ 130,000	$ 4,550

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, 2010, for this issue:

	Revenue Bonds Combined Waterworks and Sewerage System 2001 Bond Issue
Bonds payable at June 30, 2010	$ 2,460,000
Less: Current portion due June 1, 2010	(160,000)
Long-term debt at June 30, 2010	$ 2,300,000

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
2011	5.25%	$ 160,000	$ 122,369
2012	4.00%	165,000	114,869
2013	5.375%	170,000	107,000
2014	5.375%	175,000	97,728
2015	5.000%	180,000	88,187
2016-2020	5.375%	965,000	290,956
2021-2022	5.00%	645,000	48,875
Total		$ 2,460,000	$ 869,984

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

Total long-term debt for the two bond issuances is reported net of unamortized bond premium, discounts, and issuance costs of $71,032. Bond premium, discounts, and issuance costs are amortized over the term of the bonds. A summary of net long-term debt at June 30, 2010, is as follows:

Total Long-Term Debt	$	2,590,000
Add: Premium		107,082
Less: Discounts		(855)
Less: Issuance Costs		(37,981)
Net Long-Term Debt	$	2,658,246

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.

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, 2010, DNR made loan fund payments in the amount of $0 to the City. The City repaid $118,517 during the year ended June 30, 2010, leaving a balance of $1,814,946.

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

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, 2010, the debt service account balance was $3,530 and the replacement and extension account balance was $3,530.

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
2011	$ 5,682	$ 11,934	$ 17,616
2012	5,917	11,699	17,616
2013	6,161	11,455	17,616
2014	6,415	11,201	17,616
2015	6,680	10,937	17,617
2016-2020	37,765	50,315	88,080
2021-2025	46,224	41,856	88,080
2026-2030	56,577	31,503	88,080
2031-2035	69,249	18,831	88,080
2036-2038	48,632	4,060	52,692
Total	$ 289,302	$ 203,791	$ 493,093

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)	76,220
Gas (major)	General (major)	88,590
Gouldman cemetery (nonmajor)	Cemetery (major)	544
Street (nonmajor)	General (major)	54,957
Total		$ 224,311

The above transfers are budgeted routine transfers.

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.

IV. OTHER INFORMATION (continued)

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 0.3% (General), and 0.4% (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.

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	$	2,823
Interest on net pension obligation		-
Adjustment to annual required contribution		-
Annual pension cost		2,823
Actual contributions		2,823
Increase (decrease) in NPO		-
NPO beginning of year		-
NPO end of year	$	-

The annual required contribution (ARC) was determined as part of the February 29, 2008 annual actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% 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 the RP-2000 Combined Health Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table for males projected to 2000 set back 1 year for men and 7 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 29, 2008 was 15 years for the General division and 15 years for the Police division.

IV. OTHER INFORMATION (continued)

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	$ 2,346	100%	$ —
2009	2,375	100%	—
2010	2,823	100%	—

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 for road and sewer infrastructure improvements at the AFB International Facility. The total grant for this purpose is $200,000. As of June 30, 2010 the City had requested $128,664 of the grant funds.

The City is involved in a CDBG for slum/blight removal of 14 vacant houses. The total grant for this purpose is $116,640. As of June 30, 2010, the City had requested $5,700 of the grant funds.

IV. OTHER INFORMATION (continued)

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.

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 twenty-one (21) years for post-closure costs and maintenance of the closed facility is approximately $10,725, which totals $193,050. This amount is subject to review and adjustments annually and has been reflected as a liability in the government-wide statement of net assets.

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, 2010, 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

The City currently has lawsuits pending, the outcomes of which are not known at this time. 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. Fund Equity

Restricted Net Assets

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

Activity	Restricted by		Amount
Library	Contributors and law	$	7,550
Cemetery	Law		24,119
Total Restricted Net Assets for Other Purposes		$	31,669

Fund Equity Deficits

Deficit fund balance existed at June 30, 2010 in the Street Fund.

IV. OTHER INFORMATION (continued)

J. 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, 2009 and 2008 on which the fiscal 2009 and 2008 levies were based, were as follows:

	2009	2008
Real estate	$ 31,914,494	$ 27,952,529
Personal property	6,933,711	6,913,231
	$ 38,848,205	$ 34,865,760

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	2009	2008
General Revenue	$ 0.4828	$ 0.4796
Library	0.3837	0.3811
	$ 0.8665	$ 0.8607

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2010

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
2/29/2008	$ 1,341,326	$ 831,200	$ (510,126)	161%	$ 772,417	
2/28/2009	946,490	739,912	(206,578)	128%	782,338	
2/28/2010	1,020,933	835,128	(185,805)	122%	832,562	

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, 2006 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	Accounts for the revenue and expenditures of the library.
Cemetery Fund	Accounts for the operation and maintenance of the City-owned cemetery. Financing is provided primarily through fees and interest earned.
Gouldman Cemetery Fund	Accounts for the assets that are held for the cemetery fund. Only interest earned on principal can be used by the cemetery.
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, 2010

	Special Revenue Funds				Permanent Fund	Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	Gouldman Cemetery Fund	
ASSETS						
Cash and cash equivalents	$ (80,392)	$ 97,854	$ 39,338	$ 490	$ 24,119	$ 81,409
Certificates of deposit	-	-	49,577	-	-	49,577
Taxes receivable	35,402	6,101	-	-	-	41,503
Cash-restricted	-	-	-	7,060	-	7,060
Total Assets	$ (44,990)	$ 103,955	$ 88,915	$ 7,550	$ 24,119	$ 179,549
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	$ 2,516	$ 1,846	$ -	$ -	$ -	$ 4,362
Accrued liabilities	-	-	-	-	-	-
Compensated absences	-	911	-	-	-	911
Total Liabilities	2,516	2,757	-	-	-	5,273
FUND BALANCES:						
Reserved	-	-	-	7,550	24,119	31,669
Unreserved (deficit)	(47,506)	101,198	88,915	-	-	142,607
Total Fund Balances	(47,506)	101,198	88,915	7,550	24,119	174,276
Total Liabilities and Fund Balances	$ (44,990)	$ 103,955	$ 88,915	$ 7,550	$ 24,119	$ 179,549

CITY OF MONTGOMERY, MISSOURI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds				Permanent Fund	Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	Gouldman Cemetery Fund	
REVENUES						
Property taxes	$ -	$ 141,298	$ -	$ -	$ -	$ 141,298
Sales tax	134,148	-	-	-	-	134,148
Railroad, utility and intangible taxes	-	12,122	-	-	-	12,122
Intergovernmental	-	3,330	-	-	-	3,330
Charges for services	-	9,945	-	-	-	9,945
Licenses, permits and fees	-	-	1,230	-	-	1,230
Interest	-	182	1,612	12	544	2,350
Miscellaneous	-	4,042	788	21,140	-	25,970
Total Revenues	134,148	170,919	3,630	21,152	544	330,393
EXPENDITURES						
Current:						
Public works	79,514	151,055	442	-	-	231,011
Debt service:						
Principal	-	-	-	5,457	-	5,457
Interest	-	-	-	12,159	-	12,159
Capital outlay	-	1,884	-	-	-	1,884
Total Expenditures	79,514	152,939	442	17,616	-	250,511
Excess (Deficit) Revenues Over Expenditures	54,634	17,980	3,188	3,536	544	79,882
OTHER FINANCING SOURCES (USES)						
Sale of property	-	-	1,350	-	-	1,350
Transfers in	-	-	544	-	-	544
Transfers out	(54,957)	(4,000)	-	-	(544)	(59,501)
Total Other Financing Sources (Uses)	(54,957)	(4,000)	1,894	-	(544)	(57,607)
Net Change in Fund Balances	(323)	13,980	5,082	3,536	-	22,275
Fund Balances - beginning of year	(47,183)	87,218	83,833	4,014	24,119	152,001
Fund Balances - end of year	$ (47,506)	$ 101,198	$ 88,915	$ 7,550	$ 24,119	$ 174,276

STATISTICAL DATA

(UNAUDITIED)

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2010

Insurance Agency	Date of Policies			Amount of Coverage
Scott Agency	10/1/09 -10/1/10	Scheduled Equipment	$	630,665
		Business Real Estate and Personal Property		12,701,100
		Miscellaneous Unscheduled Equipment		15,000
		General Total Limit		4,000,000
		Products and Completed Work Total Limit		4,000,000
		Personal Injury Each Person Limit		2,000,000
		Advertising Injury Each Person Limit		2,000,000
		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	7/1/09 - 7/1/10	**WORKERS COMPENSATION:**		
		Bodily Injury - Accident	$	500,000
		Bodily Injury - Disease		500,000
		Bodily Injury - Disease Each Occurrence		500,000
		FIDELITY BONDS:		
CNA Surety	3/21/10 - 3/21/11	Linda Block, Deputy Clerk/Treasurer	$	50,000
CNA Surety	8/30/09 - 8/30/10	Brandy Atterbury, Municipal Court Clerk		25,000
Allied Insurance	7/26/09 - 7/26/10	Jill Dunlap, City Collector		25,000
Allied Insurance	1/27/10 - 1/27/11	Steven Deves, City Administrator/Clerk		50,000
Scott Agency	12/12/09-12/12/10	Library dishonesty bond		25,000

CITY OF MONTGOMERY, MISSOURI
INSURANCE COVERAGE (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2010

Insurance Agency	Date of Policies		Amount of Coverage
Scott Agency	10/1/09 - 10/1/10	**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	$ 25,000
		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	$10,000/option to increase
		Errors and Omissions	$ 50,000
		Expediting Expense	$ 25,000
		Extra Expense	$50,000/option to increase
		Fire Protection Equipment Refill	$ 25,000
		Forgery and Alteration	$5,000/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
		Accounts Receivable	$50,000/option to increase
		Commandeered Property	$ 500,000
		Computers, Software and Telephone Systems	$50,000/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
WATER AND WASTE WATER UTILITY
REVENUE BONDS OUTSTANDING
JUNE 30, 2010

		DATE PAYABLE	INTEREST RATE	PRINCIPAL AMOUNT	INTEREST
SERIAL BONDS					
Payable at:	UMB Bank Kansas Ctiy, Missouri				
Dated:	March 4, 2004				
Original Issue:	$630,000.00	June 1, 2011	3.500%	$ 130,000	$ 4,550
				$ 130,000	$ 4,550
SERIAL BONDS					
Payable at:	UMB Bank Kansas City, Missouri				
Dated:	November 1, 2001				
Original Issue:	$3,500,000.00	July 1, 2010	5.250%	$ 160,000	$ 122,369
		July 1, 2011	4.000%	165,000	114,869
		July 1, 2012	5.375%	170,000	107,000
		July 1, 2013	5.375%	175,000	97,728
		July 1, 2014	5.375%	180,000	88,187
		July 1, 2015	5.375%	180,000	78,512
		July 1, 2016	5.375%	185,000	68,703
		July 1, 2017	5.375%	195,000	58,491
		July 1, 2018	5.375%	200,000	47,876
		July 1, 2019	5.000%	205,000	37,375
		July 1, 2020	5.000%	210,000	27,000
		July 1, 2021	5.000%	215,000	16,375
		July 1, 2022	5.000%	220,000	5,500
				$ 2,460,000	$ 869,985

CITY OF MONTGOMERY, MISSOURI
CUSTOMERS IN SERVICE - WATER AND WASTE WATER
JUNE 30, 2010 AND 2009

WATER UTILITY

Number of customers served	-	June 30, 2010	1,327
Number of customers served	-	June 30, 2009	1,346
DECREASE IN CUSTOMERS DURING YEAR			(19)

WASTE WATER UTILITY

Number of customers served	-	June 30, 2010	1,321
Number of customers served	-	June 30, 2009	1,332
DECREASE IN CUSTOMERS DURING YEAR			(11)

COMPLIANCE AND INTERNAL CONTROL

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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 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (2010-1 and 2010-2). 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.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated March 14, 2011.

The City's responses to the findings identified in our audit is described in the accompany schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Aldermen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gerdens, Kirk & Chatwood

March 14, 2011 Certified Public Accountants

CITY OF MONTGOMERY, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

2010-1	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.

2010-2	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.