

*REPORT OF*  
*CITY OF MONTGOMERY, MISSOURI*  
*YEAR ENDED JUNE 30, 2011*

# CITY OF MONTGOMERY, MISSOURI

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Government-Wide Statement of Net Assets	10
Government-Wide Statement of Activities	11-12
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Net Assets - Proprietary Funds	18
Statement of Operating Revenues, Operating Expenses and Changes in Fund Net Assets - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20-21
Statement of Net Assets and Liabilities - Fiduciary Funds	22
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	23
Notes to Financial Statements	24-53

**CITY OF MONTGOMERY, MISSOURI**

**TABLE OF CONTENTS (CONT'D)**

**Page**

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress	54
------------------------------	----

**OTHER SUPPLEMENTARY INFORMATION**

Combining Balance Sheet - Nonmajor Governmental Funds	55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	56

**STATISTICAL DATA**

Insurance Coverage	57-58
Water and Waste Water Utility Revenue Bonds Outstanding	59
Customers in Service - Water and Waste Water	60

**COMPLIANCE AND INTERNAL CONTROL**

Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61-62
Schedule of Findings and Responses	63-64



Professional Corporation  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

723 Main St.  
P.O. Box 81  
Boonville, MO 65233  
(660) 882-7000  
Fax: (660) 882-7765  
  
[www.gkccpas.com](http://www.gkccpas.com)

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, 2011, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2012 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.

As described in Note I-M to the financial statements, the City has adopted the provisions of Governmental Accountings Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund type Definitions*, in fiscal year 2011.

The management's discussion and analysis and the schedule of funding progress (on pages 3 - 9 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 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 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.



February 2, 2012

Certified Public Accountants

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(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, 2011. The City implemented Governmental Accounting Standards Board GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for the first time for fiscal year 2004. Statement 34 allows for prospective reporting of general infrastructure effective with the year beginning July 1, 2003.

**Financial Highlights**

- The assets of the City of Montgomery exceeded its liabilities at the close of the most recent fiscal year by \$8,151,142 (net assets). Of this amount, \$1,437,253 (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 increased by \$319,518. Capital grants and contributions from developers increased the net assets by \$342,806.
- As of the close of the current fiscal year, the City of Montgomery's governmental funds reported combined ending fund balances of \$542,170. Of this amount \$(9,636) is unassigned and available for use within the City's designation and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$60,573 or 3% of the total general fund expenditures.
- The City's revenue bonds payable decreased \$292,924 due to scheduled payments.
- The City's capital lease debt decreased \$66,827 due to scheduled payments of \$66,827.

**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.

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

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 10-12 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.

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

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 13-17.

**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 18-21 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 24-53.

**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 \$8,151,142 as of June 30, 2011.

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The largest portion of the City's net assets (56.8%) 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, 2011, with comparative figures for June 30, 2010:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 1,625,352	\$ 1,567,083	\$ 1,357,432	\$ 1,307,971	\$ 2,982,784	\$ 2,875,054
Restricted assets	17,631	13,890	2,033,287	2,223,863	2,050,918	2,237,753
Capital assets	2,157,332	2,032,815	8,078,578	8,338,992	10,235,910	10,371,807
Total Assets	<u>3,800,315</u>	<u>3,613,788</u>	<u>11,469,297</u>	<u>11,870,826</u>	<u>15,269,612</u>	<u>15,484,614</u>
Current liabilities	1,073,571	1,083,479	665,109	841,616	1,738,680	1,925,095
Long-term liabilities	471,737	480,628	4,908,053	5,247,267	5,379,790	5,727,895
Total Liabilities	<u>1,545,308</u>	<u>1,564,107</u>	<u>5,573,162</u>	<u>6,088,883</u>	<u>7,118,470</u>	<u>7,652,990</u>
Net assets						
Invested in capital assets, net of related debt	1,726,855	1,530,769	2,837,636	2,615,655	4,564,491	4,146,424
Restricted	293,619	31,669	1,855,779	2,015,410	2,149,398	2,047,079
Unrestricted	234,533	487,243	1,202,720	1,150,878	1,437,253	1,638,121
Total Net Assets	<u>\$ 2,255,007</u>	<u>\$ 2,049,681</u>	<u>\$ 5,896,135</u>	<u>\$ 5,781,943</u>	<u>\$ 8,151,142</u>	<u>\$ 7,831,624</u>

As of June 30, 2011, 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 increase in net assets of \$319,518.

Governmental Activities: Governmental activities increased the net assets by \$205,326.

Business-type Activities: Net Assets from business-type activities increased by \$114,192 or 2.0% from \$5,781,943 to \$5,896,135.

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

CHANGES IN NET ASSETS

The following table provides a summary of the City's operations for the year ended June 30, 2011, with comparative figures for the year ended June 30, 2010.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 477,921	\$ 450,631	\$ 1,863,033	\$ 1,837,374	\$ 2,340,954	\$ 2,288,005
Operating grants and contributions	36,569	31,535	-	-	36,569	31,535
Capital grants and contributions	342,806	24,700	-	-	342,806	24,700
General Revenues:						
Property taxes	328,558	312,432	-	-	328,558	312,432
Sales and use taxes	441,708	420,277	-	-	441,708	420,277
Motor vehicle and fuel taxes	93,769	91,570	-	-	93,769	91,570
Other taxes	340,461	294,284	-	-	340,461	294,284
Investment earnings	13,681	16,546	88,656	96,085	102,337	112,631
Transfers	148,230	164,810	(148,230)	(164,810)	-	-
Miscellaneous	43,584	23,460	-	-	43,584	23,460
Total Revenues	<u>2,267,287</u>	<u>1,830,245</u>	<u>1,803,459</u>	<u>1,768,649</u>	<u>4,070,746</u>	<u>3,598,894</u>
Expenses:						
General government	347,255	366,919	-	-	347,255	366,919
Public safety	449,494	403,998	-	-	449,494	403,998
Public works	617,116	534,248	-	-	617,116	534,248
Cultural, parks and recreation	60,013	41,517	-	-	60,013	41,517
Solid waste	348,827	317,206	-	-	348,827	317,206
Water/sewer	-	-	901,819	968,589	901,819	968,589
Gas	-	-	787,448	889,393	787,448	889,393
Interest on long-term debt	18,276	20,887	-	-	18,276	20,887
Economic development	227,986	104,340	-	-	227,986	104,340
Total Expenses	<u>2,068,967</u>	<u>1,789,115</u>	<u>1,689,267</u>	<u>1,857,982</u>	<u>3,758,234</u>	<u>3,647,097</u>
Total other items	<u>7,006</u>	<u>2,643</u>	<u>-</u>	<u>10,403</u>	<u>7,006</u>	<u>13,046</u>
Change in net assets	205,326	43,773	114,192	(78,930)	319,518	(35,157)
Net Assets - Beginning of Year	<u>2,049,681</u>	<u>2,005,908</u>	<u>5,781,943</u>	<u>5,860,873</u>	<u>7,831,624</u>	<u>7,866,781</u>
Net Assets - End of Year	<u>\$ 2,255,007</u>	<u>\$ 2,049,681</u>	<u>\$ 5,896,135</u>	<u>\$ 5,781,943</u>	<u>\$ 8,151,142</u>	<u>\$ 7,831,624</u>

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**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 \$542,170. Of this amount \$(9,636) constitutes unassigned fund balance.

In the general fund, the City originally budgeted for a decrease of \$95,000 in the fund balance. Due to actual revenues being more than budgeted, the actual fund balance increased for fiscal year 2011 by \$79,801. 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 - \$478,229, Water/Sewer - \$724,491. Funds which had a net assets increase/(decrease) in 2011 were as follows: Gas - \$(7,347) and Water/Sewer - \$121,539.

**Capital Assets**

The City of Montgomery's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$10,235,910 (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, 2011, with comparative figures for June 30, 2010:

	<b>Capital Assets At Year-End Net of Accumulated Depreciation</b>					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment:						
Land, land rights and land improvements/construction in progress	\$ 220,732	\$ 235,164	\$ 63,695	\$ 42,960	\$ 284,427	\$ 278,124
Buildings and improvements	661,097	685,092	49,493	35,786	710,590	720,878
Infrastructure	945,374	807,005	-	-	945,374	807,005
Distribution & collection systems	-	-	7,851,364	8,123,320	7,851,364	8,123,320
Machinery & equipment	330,129	305,554	114,026	136,926	444,155	442,480
Net Capital Assets	<u>\$ 2,157,332</u>	<u>\$ 2,032,815</u>	<u>\$ 8,078,578</u>	<u>\$ 8,338,992</u>	<u>\$ 10,235,910</u>	<u>\$ 10,371,807</u>

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.

CITY OF MONTGOMERY, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**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 \$6,489,495. Of this amount, \$4,057,634 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, 2011, with comparative figures for June 30, 2010:

	<b>Capital Assets At Year-End  Net of Accumulated Depreciation</b>					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Capital lease obligations	\$ -	\$ -	\$ 1,183,308	\$ 1,250,135	\$ 1,183,308	\$ 1,250,135
Notes payable	1,209,475	1,280,810	-	-	1,209,475	1,280,810
Bonds payable	-	-	2,365,322	2,658,246	2,365,322	2,658,246
DNR loan payable	-	-	1,692,312	1,814,956	1,692,312	1,814,956
Accrued compensated absences	33,159	25,408	5,919	3,400	39,078	28,808
Net Capital Assets	<u>\$ 1,242,634</u>	<u>\$ 1,306,218</u>	<u>\$ 5,246,861</u>	<u>\$ 5,726,737</u>	<u>\$ 6,489,495</u>	<u>\$ 7,032,955</u>

During the fiscal year, the City's total debt decreased by \$543,460 or 8%. The decrease was due to scheduled debt payments.

Additional information on the City of Montgomery's long term-debt can be found in Notes III-F and III-G on pages 40-47 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, 2011

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 352,616	\$ 610,005	\$ 962,621
Investments	53,218	613,948	667,166
Taxes receivable	156,923	-	156,923
Accounts receivable, net	17,864	50,712	68,576
Intergovernmental receivables	83,533	-	83,533
Inventories	-	82,767	82,767
Investment - property	961,198	-	961,198
Total Current Assets	<u>1,625,352</u>	<u>1,357,432</u>	<u>2,982,784</u>
<b>Non Current Assets:</b>			
Restricted cash	17,631	137,751	155,382
Restricted investments	-	1,895,536	1,895,536
<b>Capital assets:</b>			
Land	94,500	42,960	137,460
Construction in progress	126,232	20,735	146,967
Other capital assets, net of accumulated depreciation	1,936,600	8,014,883	9,951,483
Total Noncurrent Assets	<u>2,174,963</u>	<u>10,111,865</u>	<u>12,286,828</u>
<b>Total Assets</b>	<u>3,800,315</u>	<u>11,469,297</u>	<u>15,269,612</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Notes payable	925,855	119,122	1,044,977
Accounts payable	137,878	43,214	181,092
Accrued liabilities	2,813	857	3,670
<b>Payable From Segregated Funds:</b>			
Interest payable	-	83,422	83,422
Bonded debt due within one year	-	165,000	165,000
Refundable deposits	7,025	79,686	86,711
Leases payable due within one year	-	58,308	58,308
DNR loan fund due within one year	-	115,500	115,500
Total Current Liabilities	<u>1,073,571</u>	<u>665,109</u>	<u>1,738,680</u>
<b>Noncurrent Liabilities:</b>			
Obligation for solid waste landfill	160,875	-	160,875
Leases payable	-	1,125,000	1,125,000
Notes payable	277,703	-	277,703
Bonds payable	-	2,200,322	2,200,322
DNR loan fund	-	1,576,812	1,576,812
Compensated absences	33,159	5,919	39,078
Total Noncurrent Liabilities	<u>471,737</u>	<u>4,908,053</u>	<u>5,379,790</u>
<b>Total Liabilities</b>	<u>1,545,308</u>	<u>5,573,162</u>	<u>7,118,470</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,726,855	2,837,636	4,564,491
<b>Restricted but expendable for (except as noted):</b>			
Debt service	10,606	1,855,779	1,866,385
Other purposes	283,013	-	283,013
Unrestricted	234,533	1,202,720	1,437,253
<b>Total Net Assets</b>	<u>\$ 2,255,007</u>	<u>\$ 5,896,135</u>	<u>\$ 8,151,142</u>

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI  
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 347,255	\$ 44,451	\$ 23,043	\$ 174,919	\$ (104,842)	\$ -	\$ (104,842)
Public works	617,116	9,134	13,526	96,623	(497,833)	-	(497,833)
Public safety	449,494	53,845	-	71,264	(324,385)	-	(324,385)
Solid waste	348,827	370,491	-	-	21,664	-	21,664
Parks	60,013	-	-	-	(60,013)	-	(60,013)
Community planning/economic development	227,986	-	-	-	(227,986)	-	(227,986)
Interest on long -term debt	18,276	-	-	-	(18,276)	-	(18,276)
Total Governmental Activities	<u>2,068,967</u>	<u>477,921</u>	<u>36,569</u>	<u>342,806</u>	<u>(1,211,671)</u>	<u>-</u>	<u>(1,211,671)</u>
Business-Type Activities:							
Water and waste water	901,819	1,010,592	-	-	-	108,773	108,773
Gas	787,448	852,441	-	-	-	64,993	64,993
Total Business-Type Activities	<u>1,689,267</u>	<u>1,863,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,766</u>	<u>173,766</u>
Total Primary Government	<u>\$ 3,758,234</u>	<u>\$ 2,340,954</u>	<u>\$ 36,569</u>	<u>\$ 342,806</u>	<u>\$ (1,211,671)</u>	<u>\$ 173,766</u>	<u>\$ (1,037,905)</u>

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI  
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont'd)  
 YEAR ENDED JUNE 30, 2011

	<b>Net (Expense) Revenue and Changes in Net Assets</b>		
	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
General Revenues:			
Taxes:			
Property taxes, levied for general purpose	\$ 186,663	\$ -	\$ 186,663
Property taxes, levied for library	141,895	-	141,895
Sales tax	301,929	-	301,929
Sales tax, restricted for street	139,779	-	139,779
Vehicle sales taxes	93,769	-	93,769
Other taxes	340,461	-	340,461
Interest income	13,681	88,656	102,337
Miscellaneous	43,584	-	43,584
Transfers	148,230	(148,230)	-
Total general revenues and transfers	1,409,991	(59,574)	1,350,417
Other Items:			
Asset sales	7,006	-	7,006
Change in net assets	205,326	114,192	319,518
Net assets - beginning	2,049,681	5,781,943	7,831,624
Net assets - ending	\$ 2,255,007	\$ 5,896,135	\$ 8,151,142

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 301,453	\$ 51,163	\$ 352,616
Investments	-	53,218	53,218
Taxes receivable	109,387	47,536	156,923
Accounts receivable, net	17,864	-	17,864
Intergovernmental receivable-grants	83,533	-	83,533
Investment property	961,198	-	961,198
Restricted assets:			
Cash and cash equivalents	<u>7,025</u>	<u>10,606</u>	<u>17,631</u>
Total Assets	<u>\$ 1,480,460</u>	<u>\$ 162,523</u>	<u>\$ 1,642,983</u>
<b>LIABILITIES</b>			
Notes payable	\$ 919,938	\$ -	\$ 919,938
Accounts payable	136,390	1,488	137,878
Accrued expenses	2,576	237	2,813
Customer deposits	7,025	-	7,025
Compensated absences	<u>31,238</u>	<u>1,921</u>	<u>33,159</u>
Total Liabilities	<u>1,097,167</u>	<u>3,646</u>	<u>1,100,813</u>
<b>FUND BALANCES</b>			
Nonspendable: real estate for resale	258,116	-	258,116
Assigned to public safety	4,660	-	4,660
Assigned to public works	59,944	-	59,944
Assigned to library	-	100,496	100,496
Assigned to cemetery	-	93,385	93,385
Assigned to library corporation	-	11,086	11,086
Assigned to Gouldman cemetery	-	24,119	24,119
Unassigned	<u>60,573</u>	<u>(70,209)</u>	<u>(9,636)</u>
Total Fund Balances	<u>383,293</u>	<u>158,877</u>	<u>542,170</u>
Total Liabilities and Fund Balances	<u>\$ 1,480,460</u>	<u>\$ 162,523</u>	<u>\$ 1,642,983</u>

CITY OF MONTGOMERY, MISSOURI  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011

Total fund balance - total governmental funds	\$	542,170
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities of \$3,721,321 net of accumulated depreciation of \$1,546,294, are not financial resources and, therefore, are not reported in the funds.		2,157,332
Long-term liabilities of \$283,620 are not due and payable in the current period and are not reported in the funds.		(283,620)
Long-term obligation for the solid waste landfill of \$160,875 is not due and payable in the current period and is not reported in the funds.		<u>(160,875)</u>
 Net Assets of Governmental Activities		 <u>\$ 2,255,007</u>

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Property taxes	\$ 186,663	\$ 141,895	\$ 328,558
Sales tax	301,929	139,779	441,708
Railroad, utility and intangible taxes	314,848	8,823	323,671
Cigarette tax	16,790	-	16,790
Motor fuel and vehicle taxes	93,769	-	93,769
Intergovernmental	365,767	10,148	375,915
Charges for services	395,400	7,684	403,084
Fines and forfeits	44,506	-	44,506
Licenses, permits and fees	29,106	1,225	30,331
Interest	12,075	1,606	13,681
Donations	82	3,378	3,460
Miscellaneous	19,972	23,612	43,584
Total Revenues	<u>1,780,907</u>	<u>338,150</u>	<u>2,119,057</u>
<b>EXPENDITURES</b>			
Current			
General government	337,368	-	337,368
Public works	275,344	266,406	541,750
Public safety	438,680	-	438,680
Solid waste	359,552	-	359,552
Parks	44,052	-	44,052
Community planning/economic development	198,299	-	198,299
Debt service	6,342	17,616	23,958
Capital outlay	256,956	9,572	266,528
Total Expenditures	<u>1,916,593</u>	<u>293,594</u>	<u>2,210,187</u>
Excess (Deficit) of Revenues over Expenditures and Other Sources (Uses)	(135,686)	44,556	(91,130)
<b>OTHER FINANCING SOURCES AND USES</b>			
Sale of property	4,152	3,150	7,302
Transfers in	211,335	314	211,649
Transfers out	-	(63,419)	(63,419)
Net Other Financing Sources and Uses	<u>215,487</u>	<u>(59,955)</u>	<u>155,532</u>
Net Change in Fund Balances	79,801	(15,399)	64,402
Fund Balance, beginning of year	<u>303,492</u>	<u>174,276</u>	<u>477,768</u>
Fund Balance, end of year	<u>\$ 383,293</u>	<u>\$ 158,877</u>	<u>\$ 542,170</u>

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, 2011

Net change in fund balances - total governmental funds \$ 64,402

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	266,528	
Depreciation expense	(141,715)	
Excess of capital outlay over depreciation expense		124,813

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		(7,302)
Gain on sale of capital assets		7,006

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Library corporation loan principal payments		5,682
---	--	-------

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
--	--	--------

		\$ 205,326
--	--	------------

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 183,000	\$ 186,663	\$ 186,663	\$ -
Sales tax	295,000	301,929	301,929	-
Railroad, utility and intangible taxes	280,200	314,848	314,848	-
Cigarette tax	14,500	16,790	16,790	-
Motor fuel and vehicle taxes	-	93,769	93,769	-
Intergovernmental	114,000	365,767	365,767	-
Charges for services	386,580	395,400	395,400	-
Fines and forfeits	41,000	44,506	44,506	-
Licenses, permits and fees	32,200	29,106	29,106	-
Interest	-	12,075	12,075	-
Donations	-	82	82	-
Miscellaneous	12,000	19,972	19,972	-
Total Revenues	<u>1,358,480</u>	<u>1,780,907</u>	<u>1,780,907</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current				
General government	366,215	337,368	337,368	-
Public works	276,370	275,344	275,344	-
Public safety	419,310	438,680	438,680	-
Solid waste	324,270	359,552	359,552	-
Parks	37,900	44,052	44,052	-
Community planning/ economic development	220,350	198,299	198,299	-
Debt service	-	6,342	6,342	-
Capital Outlay	-	256,956	256,956	-
Total Expenditures	<u>1,644,415</u>	<u>1,916,593</u>	<u>1,916,593</u>	<u>-</u>
Excess (Deficit) of Revenues over Expenditures	<u>(285,935)</u>	<u>(135,686)</u>	<u>(135,686)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	38,000	4,152	4,152	-
Transfers in	152,935	211,335	211,335	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>190,935</u>	<u>215,487</u>	<u>215,487</u>	<u>-</u>
Net Change in Fund Balances	(95,000)	79,801	79,801	\$ -
Fund Balance - beginning of year	<u>303,492</u>	<u>303,492</u>	<u>303,492</u>	
Fund Balance - end of year	<u>\$ 208,492</u>	<u>\$ 383,293</u>	<u>\$ 383,293</u>	

See Notes to Financial Statements

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	Water & Waste Water Fund	Gas Fund	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 343,777	\$ 266,228	\$ 610,005
Investments	375,446	238,502	613,948
Accounts receivable, net	39,089	11,623	50,712
Inventories	<u>66,507</u>	<u>16,260</u>	<u>82,767</u>
Total Current Assets	<u>824,819</u>	<u>532,613</u>	<u>1,357,432</u>
Noncurrent Assets:			
Restricted cash	100,430	37,321	137,751
Restricted investments	1,895,536	-	1,895,536
Capital Assets:			
Land	34,149	8,811	42,960
Construction in progress	20,735	-	20,735
Buildings and improvements	47,286	50,484	97,770
Machinery and equipment	412,448	150,279	562,727
Distribution and collection systems	11,040,507	664,850	11,705,357
Less: Accumulated depreciation	<u>(3,764,419)</u>	<u>(586,552)</u>	<u>(4,350,971)</u>
Total Noncurrent Assets	<u>9,786,672</u>	<u>325,193</u>	<u>10,111,865</u>
Total Assets	<u>\$ 10,611,491</u>	<u>\$ 857,806</u>	<u>\$ 11,469,297</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 24,260	\$ 18,954	\$ 43,214
Accrued expenses	486	371	857
Current Liabilities Payable From Restricted Cash:			
Customer deposits	42,365	37,321	79,686
Interest payable	83,422	-	83,422
Revenue bonds due within one year	165,000	-	165,000
Lease payable due within one year	55,529	2,779	58,308
Notes payable	86,173	32,949	119,122
DNR loan fund payable within one year	<u>115,500</u>	<u>-</u>	<u>115,500</u>
Total Current Liabilities	<u>572,735</u>	<u>92,374</u>	<u>665,109</u>
Non-Current Liabilities:			
Leases payable	1,125,000	-	1,125,000
Bonds payable	2,200,322	-	2,200,322
DNR loan fund	1,576,812	-	1,576,812
Compensated absences	<u>3,809</u>	<u>2,110</u>	<u>5,919</u>
Total Non-Current Liabilities	<u>4,905,943</u>	<u>2,110</u>	<u>4,908,053</u>
Total Liabilities	<u>5,478,678</u>	<u>94,484</u>	<u>5,573,162</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,552,543	285,093	2,837,636
Restricted for debt service	1,855,779	-	1,855,779
Unrestricted	<u>724,491</u>	<u>478,229</u>	<u>1,202,720</u>
Total Net Assets	<u>\$ 5,132,813</u>	<u>\$ 763,322</u>	<u>\$ 5,896,135</u>

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, 2011

	<b>Water &amp; Waste Water Fund</b>	<b>Gas Fund</b>	<b>Total</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 998,735	\$ 838,440	\$ 1,837,175
Other	11,857	14,001	25,858
Total operating revenues	<u>1,010,592</u>	<u>852,441</u>	<u>1,863,033</u>
<b>Operating Expenses:</b>			
Personnel services	160,987	121,235	282,222
Contractual services	30,675	589,797	620,472
Repairs and maintenance	60,058	4,991	65,049
Insurance	16,611	-	16,611
Sales tax	10,807	21,071	31,878
Utilities	85,408	13,151	98,559
Other supplies and expenses	76,332	15,480	91,812
Amortization	1,659	-	1,659
Depreciation	276,397	20,416	296,813
Total operating expenses	<u>718,934</u>	<u>786,141</u>	<u>1,505,075</u>
Operating Income	<u>291,658</u>	<u>66,300</u>	<u>357,958</u>
<b>Nonoperating Revenue (Expenses):</b>			
Interest revenue	87,246	1,410	88,656
Interest expense	(182,885)	(1,307)	(184,192)
Total nonoperating revenue (expense)	<u>(95,639)</u>	<u>103</u>	<u>(95,536)</u>
Net Income Before Transfers	<u>196,019</u>	<u>66,403</u>	<u>262,422</u>
Transfers			
Transfer out	(74,480)	(73,750)	(148,230)
Total Transfers	<u>(74,480)</u>	<u>(73,750)</u>	<u>(148,230)</u>
Change in Net Assets	121,539	(7,347)	114,192
Net assets - beginning of year	<u>5,011,274</u>	<u>770,669</u>	<u>5,781,943</u>
Net assets - end of year	<u>\$ 5,132,813</u>	<u>\$ 763,322</u>	<u>\$ 5,896,135</u>

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	Water & Waste Water Fund	Gas Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,010,007	\$ 851,539	\$ 1,861,546
Payments to suppliers and contractors	(289,147)	(642,087)	(931,234)
Payments to and on behalf of employees	(158,690)	(120,156)	(278,846)
Receipts (payments) of customer deposits (net)	2,755	2,652	5,407
Net cash provided (used) by operating activities	564,925	91,948	656,873
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(74,480)	(73,750)	(148,230)
Net cash provided (used) by noncapital financing activities	(74,480)	(73,750)	(148,230)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(36,398)	-	(36,398)
Principal paid on capital debt	(503,804)	(16,783)	(520,587)
Interest paid on capital debt	(188,022)	(1,307)	(189,329)
Net cash provided (used) by capital and related financing activities	(728,224)	(18,090)	(746,314)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investment assets	134,526	-	134,526
Purchase of investment assets	(10,751)	(905)	(11,656)
Interest	87,246	1,410	88,656
Net cash provided (used) by investing activities	211,021	505	211,526
Net increase (decrease) in cash and cash equivalents	(26,758)	613	(26,145)
Balances - beginning of year	470,965	302,936	773,901
Balances - end of year	\$ 444,207	\$ 303,549	\$ 747,756

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF CASH FLOWS (CONT'D)  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	<b>Water &amp; Waste Water Fund</b>	<b>Gas Fund</b>	<b>Total</b>
DISPLAYED AS:			
Cash and cash equivalents	\$ 343,777	\$ 266,228	\$ 610,005
Restricted cash	<u>100,430</u>	<u>37,321</u>	<u>137,751</u>
	<u>\$ 444,207</u>	<u>\$ 303,549</u>	<u>\$ 747,756</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	<u>\$ 291,658</u>	<u>\$ 66,300</u>	<u>\$ 357,958</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	276,397	20,416	296,813
Amortization expense	1,659	-	1,659
Change in assets and liabilities:			
Receivables, net	(585)	(902)	(1,487)
Inventories	(9,211)	2,797	(6,414)
Accounts and other payables	(45)	(394)	(439)
Accrued expenses	486	371	857
Compensated absences payable	1,811	708	2,519
Customer deposits	<u>2,755</u>	<u>2,652</u>	<u>5,407</u>
Total adjustments	<u>273,267</u>	<u>25,648</u>	<u>298,915</u>
Net cash provided by operating activities	<u>\$ 564,925</u>	<u>\$ 91,948</u>	<u>\$ 656,873</u>

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF NET ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<b>Employee Deferred Compensation Fund</b>
<b>ASSETS</b>	
Investment	\$ 40,186
Total Assets	<u>\$ 40,186</u>
<b>LIABILITIES</b>	
Deferred compensation benefits	\$ 40,186
Total Liabilities	<u>\$ 40,186</u>

CITY OF MONTGOMERY, MISSOURI  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2011

	<u>Employee Deferred Compensation Fund</u>
ADDITIONS	
Contributions	
Employer/employee	\$ 2,600
Total contributions	<u>2,600</u>
Investment earnings	
Investment income	-
Net increase (decrease) in fair value of investments	<u>3,565</u>
Net investment earnings	<u>3,565</u>
Total Additions	<u>6,165</u>
DEDUCTIONS	
Total Deductions	<u>-</u>
Change in net assets	6,165
Net assets, beginning of year	<u>34,021</u>
Net assets, end of year	<u>\$ 40,186</u>

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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 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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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 library. 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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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 receives) 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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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, 2011, 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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**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. Equity Classifications**

*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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fund Equity – Fund Financial Statements:*

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The City's nonspendable funds are as detailed in Note III-J.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of resources because they are either:
  - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
  - Imposed by law through constitutional provisions or enabling legislation.

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

- **Committed:** This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City's board of aldermen, which is the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the board of aldermen removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of year end.
- **Assigned:** This classification includes spendable amounts that are reported in governmental funds *other than the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose in accordance with the provisions of GASB Statement 54. The intent of an assigned fund balance should be expressed by either the City's board of aldermen, or a subordinate high-level body, such as a finance committee, or an official, such as the executive director, that has the authority to assign amounts to be used for specific purposes. The City's management assigned funds during year as detailed in Note III-J.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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:

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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

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, 2011 are shown below:

	Maturities	Carrying Value
Deposits:		
Demand deposits		\$ 977,436
Time deposit	7/13/2011	411,585
Time deposit	8/2/2011	6,318
Time deposit	8/5/2011	5,832
Time deposits	8/31/2011	7,060
Time deposit	9/9/2011	33,019
Time deposit	9/30/2011	6,385
Time deposit	10/14/2011	24,121
Time deposits	11/14/2011	18,741
Time deposits	12/8/2011	98,394
Time deposit	12/31/2011	3,246
Time deposit	2/9/2012	15,267
Time deposit	6/1/2012	70,950
Time deposit	6/11/2012	9,111
Time deposits	3/24/2013	74,000
Total Deposits		1,761,465
Investments:		
U.S. Treasury Obligations		1,919,240
Total Investments		1,919,240
Total deposits and investments		\$ 3,680,705

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

At June 30, 2011, cash of the business-type activities was as follows:

Reconciliation of Statement of Net Assets:

Current:	
Cash and cash equivalents	\$ 610,005
Investments	613,948
Total Current	1,223,953
Noncurrent:	
Restricted cash	137,751
Restricted investments	1,895,536
Total Noncurrent	2,033,287
Total	\$ 3,257,240

***Custodial Credit Risk.*** Deposits in financial institutions, reported as components of cash and investments had a bank balance of \$1,799,131 at June 30, 2011. 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, 2011, 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, 2011, 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:

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

Customer Deposits - Refunds of utility deposits to customers discontinuing utility usage.	\$	79,686
Bond Reserve Account - Payment of principal and interest only when and to the extent other funds are not available for that purpose.		1,730,355
Bond Replacement and Extension Account - Payments for replacements or extensions to the system.		34,400
Bond Principal and Interest - Payment of bond principal and interest		188,846
Total Restricted Assets	\$	2,033,287

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.

**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, 2011, as recorded on the Government-Wide Statement of Net Assets was \$961,198. Notes payable for which these properties are held as collateral total \$703,082.

**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, 2011, is as follows:

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

	Governmental Activities	Business-Type Activities	Total
Total accounts receivable	\$ 35,147	\$ 147,410	\$ 182,557
Less: Allowance for uncollectible accounts	(17,283)	(96,698)	(113,981)
Net accounts receivable	\$ 17,864	\$ 50,712	\$ 68,576

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**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, 2011 was as follows:

	Governmental Activities
Taxes receivable	\$ 156,923
Allowance for uncollectable accounts	—
Net taxes receivable	\$ 156,923

**D. Capital Assets**

Capital asset activity, for the fiscal year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 94,500	\$ -	\$ -	\$ 94,500
Construction in progress	140,664	114,232	(128,664)	126,232
	235,164	114,232	(128,664)	220,732
Capital assets being depreciated:				
Buildings and improvements	930,184	-	-	930,184
Machinery, equipment and furniture	1,047,230	143,452	(17,695)	1,172,987
Infrastructure	1,181,849	197,874	-	1,379,723
	3,159,263	341,326	(17,695)	3,482,894
Total capital assets at historical costs	3,394,427	455,558	(146,359)	3,703,626
Less accumulated depreciation:				
Buildings and improvements	(245,092)	(23,995)	-	(269,087)
Machinery, equipment and furniture	(741,676)	(118,581)	17,399	(842,858)
Infrastructure	(374,844)	(59,505)	-	(434,349)
Total accumulated depreciation	(1,361,612)	(202,081)	17,399	(1,546,294)
Net capital assets being depreciated	1,797,651	139,245	(296)	1,936,600
Net capital assets	\$ 2,032,815	\$ 253,477	\$ (128,960)	\$ 2,157,332

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
<b>Business-Type Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 42,960	\$ -	\$ -	\$ 42,960
Construction in progress	-	20,735	-	20,735
	<u>42,960</u>	<u>20,735</u>	<u>-</u>	<u>63,695</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	82,107	15,663	-	97,770
Machinery, equipment and furniture	602,793	-	(40,066)	562,727
Distribution and collection systems	11,705,357	-	-	11,705,357
	<u>12,390,257</u>	<u>15,663</u>	<u>(40,066)</u>	<u>12,365,854</u>
Total capital assets at historical costs	<u>12,433,217</u>	<u>36,398</u>	<u>(40,066)</u>	<u>12,429,549</u>
<b>Less accumulated depreciation:</b>				
Buildings and improvements	(46,321)	(1,956)	-	(48,277)
Machinery, equipment and furniture	(465,867)	(22,900)	40,066	(448,701)
Distribution and collection systems	(3,582,037)	(271,956)	-	(3,853,993)
Total accumulated depreciation	<u>(4,094,225)</u>	<u>(296,812)</u>	<u>40,066</u>	<u>(4,350,971)</u>
Net capital assets being depreciated	<u>8,296,032</u>	<u>(281,149)</u>	<u>-</u>	<u>8,014,883</u>
Net capital assets	<u>\$ 8,338,992</u>	<u>\$ (260,414)</u>	<u>\$ -</u>	<u>\$ 8,078,578</u>

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

<b>Governmental Activities:</b>	
General	\$ 9,887
Public works	75,365
Public safety	10,814
Parks	15,961
Community planning/economic development	29,688
Total depreciation expense for governmental activities	<u>\$ 141,715</u>
<b>Business-Type Activities:</b>	
Water and waste water	\$ 276,396
Gas	20,416
Total depreciation expense for business-type activities	<u>\$ 296,812</u>

CITY OF MONTGOMERY, MISSOURI  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

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

**E. Accounts Payable**

Payables in the governmental funds are composed of payables to vendors (98%) and accrued salaries and benefits (2%). Payables of Enterprise Funds are composed of payables to vendors (98%) and accrued salaries and benefits (2%).

**F. Short-term Notes**

Changes in Short-Term Debt:

The following is a summary of changes in short-term debt for the year ended June 30, 2011:

Type of Debt	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental Activities:				
Notes payable	\$ 991,508	\$ -	\$ 65,653	\$ 925,855
Total	<u>\$ 991,508</u>	<u>\$ -</u>	<u>\$ 65,653</u>	<u>\$ 925,855</u>

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, 2011 was \$6,962.

In December 1996 the City entered into a short-term note to finance the purchase of land for a business park. The City plans to sell off tracts of land to businesses who wish to build in the business park. The real estate was pledged as collateral for the note amount of \$469,000. The note has been renewed various times over the past several years as required by the bank. The note was renewed once again on June 5, 2011, and will mature on June 5, 2012. The unpaid principal balance will bear interest at an annual rate equal to the prime rate announced by the bank. At June 30, 2011, the interest rate was 2.05%. The interest rate is adjusted each time the prime rate changes. There were no principal payments made during the fiscal year ended June 30, 2011. At June 30, 2011, 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, 2011 was \$5,566. Interest paid during the fiscal year was \$438 and principal was \$11,142.

On June 1, 2011, the City borrowed \$412,500 for the purchase of developed real estate land. The loan is due June 1, 2012 and the interest rate is 2.05%. The balance at June 30, 2011 is \$412,500.

On June 1, 2011, the City borrowed \$70,000 at 2.707%, with a maturity of June 1, 2012. Certificate of deposit number 34324 is held as collateral. The balance at June 30, 2011 is \$70,000.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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, 2011 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, 2011, and the interest rate is 2.60%. 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, 2011 is \$253,450.92 and interest paid during 2010-2011 was \$10,052.

The debt balance at June 30, 2011 is reported in the following funds as shown:

General	\$ 134,329	(governmental)
Water and Sewer	86,173	
Gas	32,949	
	119,122	(business-type)
Total	\$ 253,451	

**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, 2011:

Type of Debt	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Notes Payable	\$ 289,302	\$ -	\$ 5,682	\$ 283,620	\$ 5,917
Accrued compensated absences	25,408	7,751	-	33,159	-
Total General Long-Term Debt	\$ 314,710	\$ 7,751	\$ 5,682	\$ 316,779	\$ 5,917
<b>Business-Type Activities:</b>					
Bonds Payable	\$ 2,658,246	\$ -	\$ 292,924	\$ 2,365,322	\$ 165,000
Capital Lease Obligations	1,250,135	-	66,827	1,183,308	58,308
DNR Loan Payable	1,814,956	-	122,644	1,692,312	115,500
Accrued Compensated Absences	3,400	2,519	-	5,919	-
Total Enterprise Fund Debt	\$ 5,726,737	\$ 2,519	\$ 482,395	\$ 5,246,861	\$ 338,808

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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, 2011, for this issue:

	Revenue Bonds
	Combined Waterworks and Sewerage System
	2001 Bond Issue
Bonds payable at June 30, 2011	\$ 2,300,000
Less: Current portion due June 1, 2010	(165,000)
Long-term debt at June 30, 2011	\$ 2,135,000

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
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	5.375%	180,000	78,512
2017-2021	5.375%	995,000	239,445
2022	5.00%	435,000	21,875
Total		\$ 2,300,000	\$ 747,616

Total long-term debt for the two bond issuances is reported net of unamortized bond premium, discounts, and issuance costs of \$65,322. Bond premium, discounts, and issuance costs are amortized over the term of the bonds. A summary of net long-term debt at June 30, 2011, is as follows:

Total Long-Term Debt	\$ 2,300,000
Add: Premium	98,170
Less: Issuance Costs	(32,848)
Net Long-Term Debt	\$ 2,365,322

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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, 2011, DNR made loan fund payments in the amount of \$0 to the City. The City repaid \$122,644 during the year ended June 30, 2011, leaving a balance of \$1,692,312.

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, 2011, the debt service account balance was \$5,303 and the replacement and extension account balance was \$5,303.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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
2012	\$ 5,917	\$ 11,699	\$ 17,616
2013	6,161	11,455	17,616
2014	6,415	11,201	17,616
2015	6,680	10,936	17,616
2016	6,955	10,661	17,616
2017-2021	39,323	48,757	88,080
2022-2026	48,130	39,950	88,080
2027-2031	58,910	29,170	88,080
2032-2036	72,105	15,975	88,080
2037-2038	33,024	2,054	35,078
Total	<u>\$ 283,620</u>	<u>\$ 191,858</u>	<u>\$ 475,478</u>

**Capital Leases**

The changes in capital lease obligations for the year ended June 30, 2011 are shown below:

	Balance 6/30/2010	Lease Proceeds	Principal Paid	Balance 6/30/2011	Interest Paid
Business-Type Activities:					
Water & waste water	\$ 1,240,678	\$ -	\$ 60,149	\$ 1,180,529	\$ 61,256
Gas	9,458	-	6,679	2,779	366
	<u>\$ 1,250,136</u>	<u>\$ -</u>	<u>\$ 66,828</u>	<u>\$ 1,183,308</u>	<u>\$ 61,622</u>

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

	Business-Type Activities
Leased property	\$ 1,505,144
Leased property accumulated depreciation	(162,988)
Total	<u>\$ 1,342,156</u>

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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, 2011.

	Year Ending June 30,	Business-Type Activities
	2012	\$ 8,518
Total lease payments		8,518
Less: Amount representing interest		(210)
Total obligation under capital leases		8,308
Less: Current portion		(8,308)
Total long-term obligation under capital leases		\$ -

Lease - Purchase Agreement

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

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

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

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

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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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

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

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

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

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

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

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

The Base Rental Payment and Option Price Schedule follow:

Year Ending June 30,	Principal	Interest
2012	\$ 50,000	\$ 58,410
2013	50,000	56,160
2014	55,000	53,735
2015	55,000	51,068
2016	60,000	48,400
2017-2021	350,000	194,642
2022-2026	450,000	98,095
2027	105,000	5,355
Total	<u>\$ 1,175,000</u>	<u>\$ 565,865</u>

**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:

<u>Disbursing Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>
Library (nonmajor)	General (major)	\$ 4,000
Water and wastewater (major)	General (major)	74,480
Gas (major)	General (major)	73,750
Gouldman cemetery (nonmajor)	Cemetery (major)	314
Street (nonmajor)	General (major)	58,105
Cemetery (nonmajor)	General (major)	1,000
Total		<u>\$ 211,649</u>

The above transfers are budgeted routine transfers.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**I. Fund Equity**

**Restricted Net Assets**

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

<u>Activity</u>	<u>Restricted by</u>	<u>Amount</u>
Public safety	Law	\$ 4,590
Public works	Law	59,943
Library	Contributors and law	100,976
Cemetery	Contributors and law	<u>117,504</u>
Total Other Purposes		<u>\$ 283,013</u>
Debt service-library		<u>\$ 10,606</u>

**Fund Equity Deficits**

Deficit fund balance existed at June 30, 2011 in the Street Fund.

**J. Fund Balance**

Classifications of fund balances at June 30, 2011 are as follows:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
Fund Balances:						
General	\$ 258,116	\$ -	\$ -	\$ 64,604	\$ 60,573	\$ 383,293
Street	-	-	-	-	(70,209)	(70,209)
Library	-	-	-	100,496	-	100,496
Cemetery	-	-	-	93,385	-	93,385
Library Corporation	-	-	-	11,086	-	11,086
Gouldman Cemetery	-	-	-	24,119	-	24,119
Total	<u>\$ 258,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293,690</u>	<u>\$ (9,636)</u>	<u>\$ 542,170</u>

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

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**IV. OTHER INFORMATION**

**A. Employee Pension Plan**

1. Plan Description

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

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

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

2. Funding Status

Full-time employees of the City of Montgomery do not contribute to the pension plan. The June 30<sup>th</sup> statutorily required contribution rates are 1.3% (General), and 1.4% (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	\$	11,216
Interest on net pension obligation		-
Adjustment to annual required contribution		-
Annual pension cost		11,216
Actual contributions		11,216
Increase (decrease) in NPO		-
NPO beginning of year		-
NPO end of year	\$	-

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**IV. OTHER INFORMATION (continued)**

The annual required contribution (ARC) was determined as part of the February 28, 2009 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2011 included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Health Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of February 28, 2009 was 7 years for the General division and 7 years for the Police division.

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 2,375	100%	\$ —
2010	2,823	100%	—
2011	11,216	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.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**IV. OTHER INFORMATION (continued)**

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, 2011 the City had requested \$67,509 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, 2011, the City had requested \$105,709 of the grant funds.

**D. Risk Management**

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

**E. Closure of Montgomery City Sanitary Landfill**

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

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

The project engineer estimated the costs to be incurred in each of the next fifteen (15) years for post-closure costs and maintenance of the closed facility is approximately \$10,725, which totals \$160,875. This amount is subject to review and adjustments annually and has been reflected as a liability in the government-wide statement of net assets.

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**IV. OTHER INFORMATION (continued)**

**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, 2011, 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.

**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. 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, 2010 and 2009 on which the fiscal 2010 and 2009 levies were based, were as follows:

CITY OF MONTGOMERY, MISSOURI  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**IV. OTHER INFORMATION (continued)**

	2010	2009
Real estate	\$ 32,223,075	\$ 31,914,494
Personal property	6,808,760	6,933,711
	\$ 39,031,835	\$ 38,848,205

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	2010	2009
General Revenue	\$ 0.5066	\$ 0.4828
Library	0.3851	0.3837
	\$ 0.8917	\$ 0.8665

**J. Pledged Revenues**

The Water and Wastewater and Gas funds and the Library Corporation have pledged future water and wastewater and gas and Library Corporation revenues, net of specified operating expenses, to repay water and wastewater revenue bonds and water and wastewater and gas capital lease obligations and Library Corporation note payable that were issued for the purpose of water and wastewater improvements and equipment and gas equipment and the Library Corporation building. The bonds and leases are payable from water and wastewater and gas funds net revenues and are payable through 2027. The Library Corporation net revenues are payable through 2038. Annual principal and interest payments in 2011 on the bonds, leases and Library Corporation loan required 98% and 14% of net revenues in the water and wastewater and gas funds, respectively and 83% of net revenues of the Library Corporation. The total principal and interest remaining to be paid on bonds, leases and loans are \$4,794,148 and \$2,851 for the water and wastewater and gas funds, respectively and \$475,478 for the Library Corporation. Principal and interest paid for the current year were \$544,413 and \$11,932 for the water and wastewater and gas funds, respectively and \$17,616 for the Library Corporation. Total water and wastewater, gas and Library Corporation net revenues for the current year were \$555,662, \$88,126 and \$21,151 respectively.

**K. Consideration of Subsequent Events**

Subsequent events have been evaluated through February 2, 2012, which is the date the financial statements are available to be issued. No events requiring disclosure were identified as a result of this review.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF MONTGOMERY, MISSOURI  
 SCHEDULE OF FUNDING PROGRESS  
 YEAR ENDED JUNE 30, 2011

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

Missouri Local Government Employees Retirement System  
 Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2009	\$ 946,490	\$ 739,912	\$ (206,578)	128%	\$ 782,338	
2/28/2010	1,020,933	835,128	(185,805)	122%	832,562	
2/28/2011	1,129,264	976,886	(152,378)	116%	817,264	

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

## **OTHER SUPPLEMENTARY INFORMATION**

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

Such statements and schedules include:

- Combining Statements - Nonmajor governmental funds
- Statistical Data

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Street Fund	Accounts for revenues and expenditures of the street department.
Library Fund	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, 2011

	<u>Special Revenue Funds</u>				<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Street</u>	<u>Library</u>	<u>Cemetery</u>	<u>Library Corporation</u>	<u>Gouldman Cemetery Fund</u>	
<b>ASSETS</b>						
Cash and cash equivalents	\$ (109,264)	\$ 95,661	\$ 40,167	\$ 480	\$ 24,119	\$ 51,163
Certificates of deposit	-	-	53,218	-	-	53,218
Taxes receivable	39,554	7,982	-	-	-	47,536
Cash-restricted	-	-	-	10,606	-	10,606
Total Assets	<u>\$ (69,710)</u>	<u>\$ 103,643</u>	<u>\$ 93,385</u>	<u>\$ 11,086</u>	<u>\$ 24,119</u>	<u>\$ 162,523</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 499	\$ 989	\$ -	\$ -	\$ -	\$ 1,488
Accrued expenses	-	237	-	-	-	237
Compensated absences	-	1,921	-	-	-	1,921
Total Liabilities	<u>499</u>	<u>3,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,646</u>
<b>FUND BALANCES:</b>						
Assigned to library	-	100,496	-	-	-	100,496
Assigned to cemetery	-	-	93,385	-	-	93,385
Assigned to library corporation	-	-	-	11,086	-	11,086
Assigned to Gouldman cemetery	-	-	-	-	24,119	24,119
Unassigned (deficit)	<u>(70,209)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,209)</u>
Total Fund Balances	<u>(70,209)</u>	<u>100,496</u>	<u>93,385</u>	<u>11,086</u>	<u>24,119</u>	<u>158,877</u>
Total Liabilities and Fund Balances	<u>\$ (69,710)</u>	<u>\$ 103,643</u>	<u>\$ 93,385</u>	<u>\$ 11,086</u>	<u>\$ 24,119</u>	<u>\$ 162,523</u>

CITY OF MONTGOMERY, MISSOURI  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				Permanent Fund	Total Nonmajor Governmental Funds
	Street	Library	Cemetery	Library Corporation	Gouldman Cemetery Fund	
<b>REVENUES</b>						
Property taxes	\$ -	\$ 141,895	\$ -	\$ -	\$ -	\$ 141,895
Sales tax	139,779	-	-	-	-	139,779
Railroad, utility and intangible taxes	-	8,823	-	-	-	8,823
Intergovernmental	-	10,148	-	-	-	10,148
Charges for services	-	7,684	-	-	-	7,684
Licenses, permits and fees	-	-	1,225	-	-	1,225
Interest	-	170	1,100	22	314	1,606
Donations	-	3,378	-	-	-	3,378
Miscellaneous	-	2,472	-	21,140	-	23,612
Total Revenues	<u>139,779</u>	<u>174,570</u>	<u>2,325</u>	<u>21,162</u>	<u>314</u>	<u>338,150</u>
<b>EXPENDITURES</b>						
Current:						
Public works	99,323	166,754	319	10	-	266,406
Debt service:						
Principal	-	-	-	5,682	-	5,682
Interest	-	-	-	11,934	-	11,934
Capital outlay	5,054	4,518	-	-	-	9,572
Total Expenditures	<u>104,377</u>	<u>171,272</u>	<u>319</u>	<u>17,626</u>	<u>-</u>	<u>293,594</u>
Excess (Deficit) Revenues						
Over Expenditures	<u>35,402</u>	<u>3,298</u>	<u>2,006</u>	<u>3,536</u>	<u>314</u>	<u>44,556</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of property	-	-	3,150	-	-	3,150
Transfers in	-	-	314	-	-	314
Transfers out	(58,105)	(4,000)	(1,000)	-	(314)	(63,419)
Total Other Financing Sources (Uses)	<u>(58,105)</u>	<u>(4,000)</u>	<u>2,464</u>	<u>-</u>	<u>(314)</u>	<u>(59,955)</u>
Net Change in Fund Balances	(22,703)	(702)	4,470	3,536	-	(15,399)
Fund Balances - beginning of year	(47,506)	101,198	88,915	7,550	24,119	174,276
Fund Balances - end of year	<u>\$ (70,209)</u>	<u>\$ 100,496</u>	<u>\$ 93,385</u>	<u>\$ 11,086</u>	<u>\$ 24,119</u>	<u>\$ 158,877</u>

**STATISTICAL DATA**

**(UNAUDITED)**

CITY OF MONTGOMERY, MISSOURI  
INSURANCE COVERAGE  
FOR THE YEAR ENDED JUNE 30, 2011

<u>Insurance Agency</u>	<u>Date of Policies</u>		<u>Amount of Coverage</u>		
Scott Agency	10/1/10 -10/1/11	Scheduled Equipment	\$ 694,665		
		Business Real Estate and Personal Property	12,684,600		
		Miscellaneous Unscheduled Equipment	12,000		
		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 Each Occurrence 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	7/1/10 - 7/1/11	<b>WORKERS COMPENSATION:</b>	
		Mutal Insurance		Bodily Injury - Accident	\$ 500,000
Bodily Injury - Disease	500,000				
Bodily Injury - Disease Each Occurrence	500,000				
		<b>FIDELITY BONDS:</b>			
CNA Surety	3/21/11 - 3/21/12	Linda Block, Deputy Clerk/Treasurer	\$ 50,000		
CNA Surety	8/30/10 - 8/30/11	Brandy Atterbury, Municipal Court Clerk	25,000		
Allied Insurance	7/26/10 - 7/26/11	Jill Dunlap, City Collector	25,000		
Allied Insurance	1/27/11 - 1/27/12	Steven Deves, City Administrator/Clerk	50,000		
Scott Agency	12/12/10-12/12/11	Library dishonesty bond	25,000		

CITY OF MONTGOMERY, MISSOURI  
INSURANCE COVERAGE (CONTD)  
FOR THE YEAR ENDED JUNE 30, 2011

<u>Insurance Agency</u>	<u>Date of Policies</u>	<u>Amount of Coverage</u>
Scott Agency	10/1/10 - 10/1/11	<b>ADDITIONAL BENEFITS COVERAGE:</b>
		Premises Boundary Increase 1000 Feet
		Foundations, structures, below ground, Lesser of 15%
		Bulkheads, pilings, piers, wharves, docks, of property value
		Retaining walls, underground pipes, flues, drains 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 \$ 2,000,000
		Buildings and Business Personal Property
		Personal Effects and Property of Others \$ 25,000
		Valuable Papers and Records \$50,000/option to increase
		(Other Than Electronic Data)
		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, 2011

	<u>DATE PAYABLE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST</u>
SERIAL BONDS				
Payable at:	UMB Bank Kansas City, Missouri			
Dated:	November 1, 2001			
Original Issue:	\$3,500,000.00			
	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%	<u>220,000</u>	<u>5,500</u>
			<u>\$ 2,300,000</u>	<u>\$ 747,616</u>

CITY OF MONTGOMERY, MISSOURI  
CUSTOMERS IN SERVICE - WATER AND WASTE WATER  
JUNE 30, 2011 AND 2010

WATER UTILITY

Number of customers served	-	June 30, 2011	1,341
Number of customers served	-	June 30, 2010	<u>1,327</u>
INCREASE IN CUSTOMERS DURING YEAR			<u><u>14</u></u>

WASTE WATER UTILITY

Number of customers served	-	June 30, 2011	1,327
Number of customers served	-	June 30, 2010	<u>1,321</u>
INCREASE IN CUSTOMERS DURING YEAR			<u><u>6</u></u>

## **COMPLIANCE AND INTERNAL CONTROL**



Professional Corporation  
Certified Public Accountants

723 Main St.  
P.O. Box 81  
Boonville, MO 65233  
(660) 882-7000  
Fax: (660) 882-7765

[www.gkccpas.com](http://www.gkccpas.com)

**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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 2, 2012. 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.

PARTNERS

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

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.

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 (2011-1 and 2011-2). 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 February 2, 2012.

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.

February 2, 2012

  
Certified Public Accountants

CITY OF MONTGOMERY, MISSOURI  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2011

2011-1                      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.

CITY OF MONTGOMERY, MISSOURI  
SCHEDULE OF FINDINGS AND RESPONSES (CONT'D)  
YEAR ENDED JUNE 30, 2011

2011-2                      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.

**AUDIT COMMUNICATIONS LETTER OF**  
**CITY OF MONTGOMERY, MISSOURI**  
**JUNE 30, 2011**

**GK&C**  
GERDING, KORTE & CHITWOOD

Professional Corporation  

---

Certified Public Accountants



Professional Corporation  
Certified Public Accountants

723 Main St.  
P.O. Box 81  
Boonville, MO 65233  
(660) 882-7000  
Fax: (660) 882-7765  
[www.gkccpas.com](http://www.gkccpas.com)

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") for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 12, 2011. Professional standards also require that we communicate to you the following information related to our audit.

PARTNERS

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

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. As described in Note I to the financial statements, the City implemented GASB 54 in 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of allowance for doubtful accounts is based on an analysis of the collectability of accounts. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expense is based on experience of management's estimate of useful lives of assets. We evaluated the key factors and assumptions used to develop the estimate of depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 2, 2012.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Current Year Comments*

Documentation of Internal Controls

Current auditing standards consider inadequate documentation of the components of internal control to be at least a significant deficiency, and possibly a material weakness. Documentation of internal controls should be in writing and periodically reviewed to ensure they are being followed.

Accounting Personnel/Segregation of Duties

The small number of accounting and clerical personnel of the City precludes the application of internal accounting control procedures possible in a larger organization.

Capitalization Policy

The City's current capitalization policy for recording fixed assets is \$500. We recommend the City consider raising the capitalization floor to a higher amount, such as \$5,000.

*Status of Prior Year Comments*

Documentation of Internal Controls

Current auditing standards consider inadequate documentation of the components of internal control to be at least a significant deficiency, and possibly a material weakness. Documentation of internal controls should be in writing and periodically reviewed to ensure they are being followed.

Status – See current year comments

Accounting Personnel/Segregation of Duties

The small number of accounting and clerical personnel of the City precludes the application of internal accounting control procedures possible in a larger organization.

Status – See current year comments

Capitalization Policy

The City's current capitalization policy for recording fixed assets is \$500. We recommended the City consider raising the capitalization floor to a higher amount, such as \$5,000.

Status – See current year comments

Loan Proceeds

During our prior year audit, we noted loan proceeds were paid directly to a seller of land to the City and the loan was not recorded on the City's ledger. We recommended the City record all loans on the general ledger.

Status – Implemented in current year

This information is intended solely for the use of the Board of Aldermen and the City's management and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

February 2, 2012